

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**REPORT ON THE AUDIT OF
FINANCIAL STATEMENTS IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

YEAR ENDED SEPTEMBER 30, 2017

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

YEAR ENDED SEPTEMBER 30, 2017

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**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION**

YEAR ENDED SEPTEMBER 30, 2017

INDEPENDENT AUDITORS' REPORT

Honorable Marcelo Peterson
Governor, the State of Pohnpei
Federated States of Micronesia:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units and each major fund of the State of Pohnpei (the State) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as set forth in Section III of the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, which represent 7%, 6%, and 7%, respectively, of the assets, net position, and operating revenues of the State's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Qualified
Aggregate Discretely Presented Component Units	Unmodified
General Fund	Unmodified
Grants Assistance Fund	Unmodified
Compact Trust Fund	Unmodified
Other Governmental Funds	Unmodified

Basis for Qualified Opinion on Governmental Activities

As more fully described in Note 14 to the financial statements, the State has not recorded a liability for a nonexchange financial guarantee for discretely presented component unit debt. In our opinion, accounting principles generally accepted in the United States of America require that a liability be recognized when the State will be required to make a payment on the guarantee. The effects of this departure on the governmental activities of the State are not reasonably determinable.

Qualified Opinion

In our opinion, except for the matters described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the State of Pohnpei as of September 30, 2017, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and each major fund of the State of Pohnpei as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and each major fund of the State of Pohnpei as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

Receivables from the FSM National Government

As discussed in Note 3 to the financial statements, the State is in discussions with the FSM National Government to determine the ultimate collectability of certain receivables due from the FSM National Government in consultation with federal grantor agencies arising from Compact sector grant transactions.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

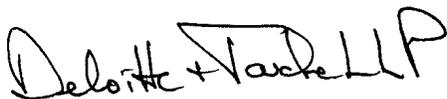
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 as well as the Schedule of Revenues, Expenditures, and changes in Fund Balance - Budget and Actual - General Fund and notes thereto, on pages 51 and 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund financial statements, as set forth in Section V of the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.



June 29, 2018

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2017

This section of the Pohnpei State's financial report presents our Management's Discussion and Analysis (MD&A) for the fiscal year ended September 30, 2017. This MD&A is prepared in compliance with the GASB 54 requirement. Readers are requested to read this MD&A in conjunction with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Pohnpei State's total governmental activities net position for the year is \$53,850,964.
- The net change in total governmental fund balance is an increase of \$8,407,125. Total revenues reported are \$43,088,644 against total expenditures of \$34,681,519.
- Actual revenues for the general fund were \$4,573,910 higher than budgeted revenues. The total expenditures-budgetary basis showed a favorable variance of \$436,266. The general fund reported an unassigned fund balance of \$3,648,631, which is an increase of \$4,160,880 from the prior year unassigned fund deficit of \$512,249.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplemental information and the notes to the financial statements.

The basic financial statements include two types of statements that present different views of the State:

Government-Wide Financial Statements

The government-wide financial statements report information about the State as a whole using an accounting method similar to those used by the private-sector companies. It provides both long-term and short-term information about the State's financial status.

The statement of net position includes all of the government's assets and liabilities. The difference between the two is called net position. Over time, increases or decreases in the State's net position serve as an indicator to measure the State's financial position.

The statement of activities, on the other hand, accounts for the State's current year's revenues and expenses regardless of when cash is received or paid.

The government-wide financial statements of the State consist of its government activities, which include public works, health, education and general administration. Sales taxes, revenue sharing, federal grants and Compact II/Sector grants are the major sources of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's significant funds. The State uses fund accounting to comply with financial related legal requirements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2017

- Government funds. Most of the State's basic services are included in government funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Unlike the government-wide financial statements, the government funds statements focus on the short-term financial requirements of the State. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide reconciliation at the bottom of the government funds statement, to explain the relationship between them. The State maintains individual government funds, which are categorized as major and non-major. The major fund includes the General Fund. The other major funds are consisting of the Grants Assistance Fund and the Compact Trust Fund.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE (GOVERNMENT-WIDE)

The following is a summary of the State's net position as of September 30:

	<u>Government Activities</u>	
	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 36,994,964	\$ 30,394,249
Capital assets	<u>26,327,591</u>	<u>27,866,795</u>
Total assets	\$ <u>63,322,555</u>	\$ <u>58,261,044</u>
Current liabilities	\$ 5,200,204	\$ 7,388,314
Long-term debt and other liabilities	<u>4,271,387</u>	<u>4,383,146</u>
Total liabilities	<u>9,471,591</u>	<u>11,771,460</u>
Net position		
Net investment in capital assets	26,327,591	27,866,795
Restricted	25,249,658	21,516,968
Unrestricted fund balance	<u>2,273,715</u>	<u>(2,894,179)</u>
Total net position	<u>53,850,964</u>	<u>46,489,584</u>
	\$ <u>63,322,555</u>	\$ <u>58,261,044</u>

Change in net position. The State's Statement of Changes in Net Position for the fiscal year ended September 30 follows:

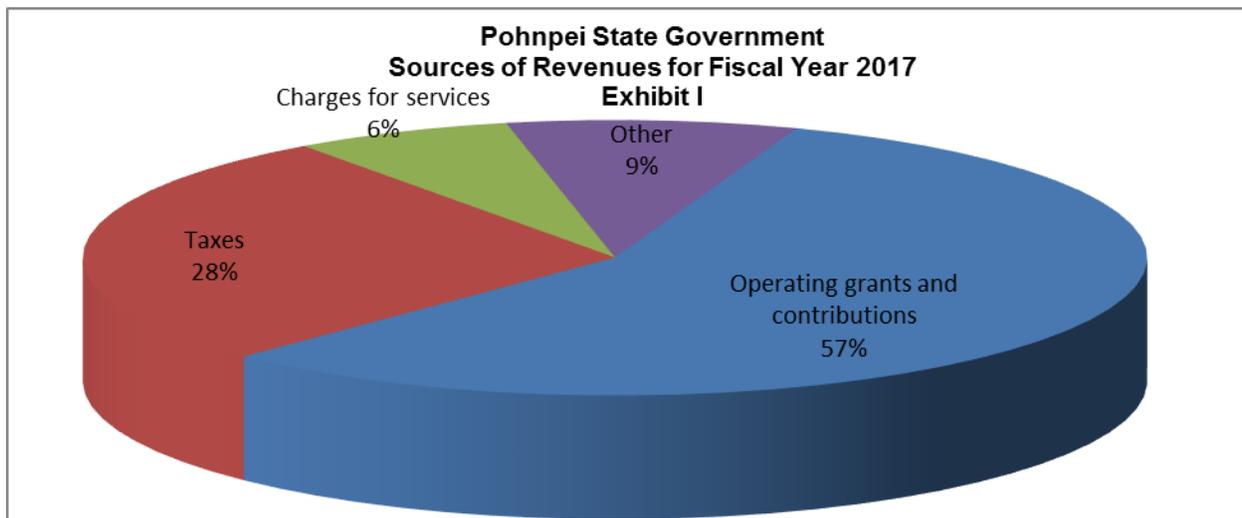
	<u>Government Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,693,745	\$ 1,863,972
Operating grants and contributions	22,904,037	20,374,343
Capital grants and contributions	550,934	-
General revenues:		
Taxes	11,222,670	9,651,582
Investment earnings	814,772	670,198
Other	<u>2,758,963</u>	<u>5,743</u>
Total revenues	<u>40,945,121</u>	<u>32,565,838</u>

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FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2017

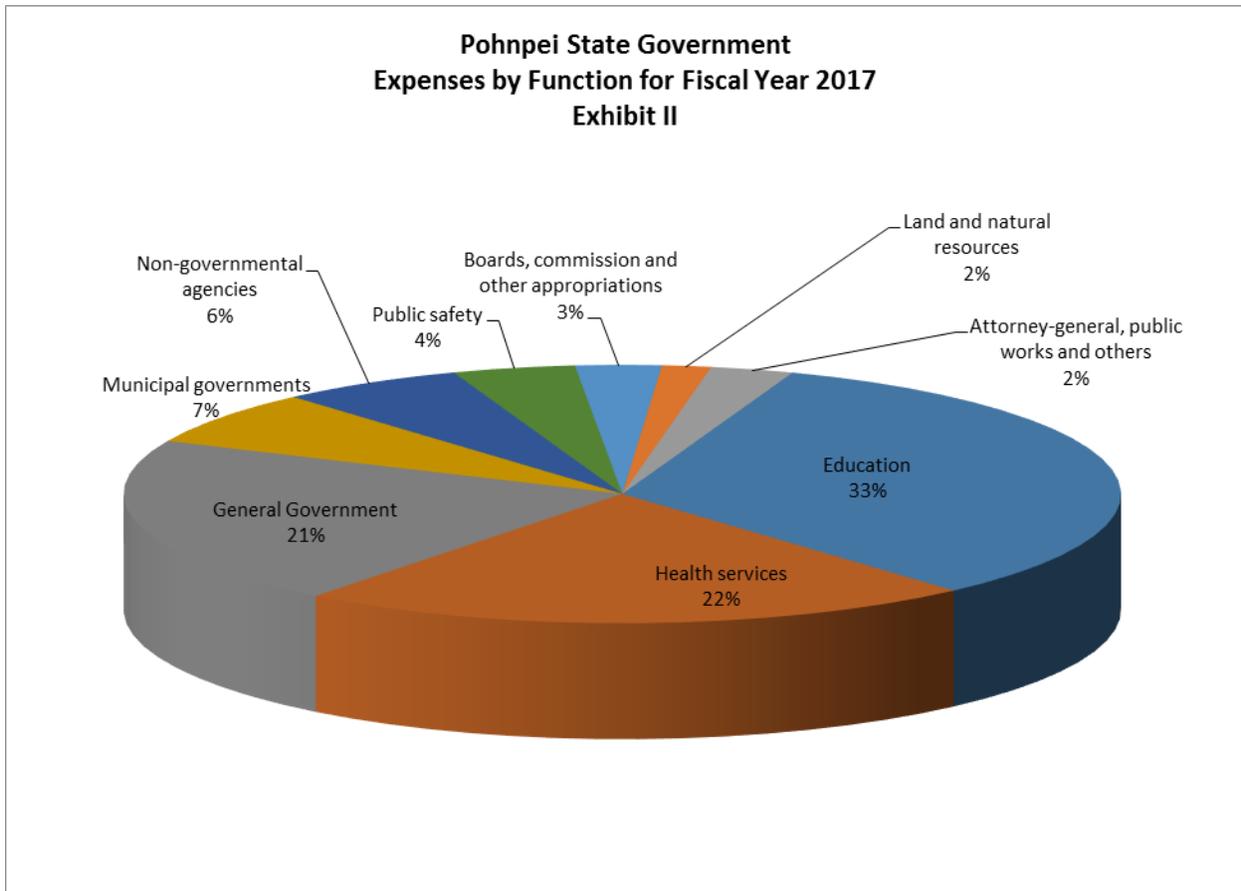
	<u>Government Activities</u>	
	<u>2017</u>	<u>2016</u>
Expenses:		
General Government	7,564,057	7,510,076
Education	11,739,170	11,687,449
Health services	7,876,030	8,342,403
Land and natural resources	568,513	618,682
Public works and transportation	81,013	254,523
Public safety	1,423,010	1,515,125
Boards, commission and other appropriations	<u>6,435,718</u>	<u>5,630,734</u>
Total expenses	<u>35,687,511</u>	<u>35,558,992</u>
Other items:		
SDR-foreign exchange gain (loss)	(39,753)	19,337
Contributions to permanent fund	<u>2,143,523</u>	<u>1,270,593</u>
	<u>2,103,770</u>	<u>1,289,930</u>
Change in net position	7,361,380	(1,703,224)
Net position - beginning	<u>46,489,584</u>	<u>48,192,808</u>
Net position - ending	\$ <u>53,850,964</u>	\$ <u>46,489,584</u>

Exhibit I, below, showed that 57% of the State's revenues were derived from Compact II while 34% came from taxes and licenses. Exhibit II, next page, illustrated that Education represented 33% of the State's total expenses followed by Health Services at 22%.



**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2017



FINANCIAL ANALYSIS OF THE STATE GOVERNMENTAL FUNDS

The State's governmental fund changes in fund balances for the years ended September 30, 2017 and 2016 are shown below.

	<u>General Fund</u>		<u>Grants Assistance Fund</u>		<u>Compact Trust Fund</u>		<u>Other Funds</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:								
Taxes	\$10,854,701	\$ 9,292,983	\$ -	\$ -	\$ -	\$ -	\$ 367,969	\$ 358,599
Compact	-	-	21,281,707	19,481,544	-	-	239,889	-
Other/transfers in	<u>3,998,351</u>	<u>972,593</u>	<u>1,933,375</u>	<u>892,799</u>	<u>2,143,523</u>	<u>1,270,593</u>	<u>2,269,129</u>	<u>1,567,320</u>
Total revenues	14,853,052	10,265,576	23,215,082	20,374,343	2,143,523	1,270,593	2,876,987	1,925,919
Expenditures/transfers out	<u>10,094,878</u>	<u>10,913,993</u>	<u>23,108,908</u>	<u>20,403,077</u>	-	-	<u>1,477,733</u>	<u>1,705,325</u>
Net change in fund balances	<u>\$ 4,758,174</u>	<u>\$ (648,417)</u>	<u>\$ 106,174</u>	<u>\$ (28,734)</u>	<u>\$ 2,143,523</u>	<u>\$ 1,270,593</u>	<u>\$ 1,399,254</u>	<u>\$ 220,594</u>

General Fund

Compared to FY 2016, tax revenue increased by \$1,561,718 or 17%, the net change in the fair value of investment went up to \$814,772 from \$670,198, while fees and charges increased to \$424,616 from \$296,652. The State also received dividends and other revenues of \$2,758,963 that resulted to overall increase of \$4,587,476 for revenues. Expenditures decreased by \$819,115 or 8% compared to fiscal year 2016; the State recorded no transfers out for this year and fiscal year 2016.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2017

Grant Assistance Fund

As mentioned in the preceding paragraph, Compact II/Sector Grants were the major sources of Pohnpei State's operating grants for fiscal year 2017. The total Compact II/Sector funding amounted to \$18,591,602 while total expenditures are in the amount of \$18,591,602, which is discussed below:

- The education sector grant that shall support and improve the educational system of the Federated States of Micronesia, including, without limitation, the systems for primary, secondary, and post-secondary education. The total revenues are \$8,110,292 against total expenditures of the same amount, an increase of \$1,016,232 or 14% compared to fiscal year 2016.
- The health sector grant that shall support and improve the delivery of preventive, curative and environmental care, and develop the human and material resources necessary for the Federated States of Micronesia to perform these services. The total funding equals the total expenditures in the amount of \$6,102,185, an increase of \$312,716 or 5% compared to fiscal year 2016.
- The sector grant for private sector development shall support the efforts of the Federated States of Micronesia to attract new foreign investment and increase indigenous business activity. Priorities will be in advancing the private development of fisheries, tourism and agriculture; employing new telecommunications technologies; and analyzing and developing new systems, laws, and policies to foster private sector development, to facilitate investment by potential private investors, and develop business and entrepreneurial skills. Total revenues of \$69,932 equal total expenditures of the same amount. There was no funding for fiscal years 2016 and 2015.
- The sector for capacity building shall support the efforts of the Federated States of Micronesia to build effective, accountable and transparent national and local government and other public sector institutions and systems. The total grant revenues and corresponding expenditures are \$346,021, a decrease of \$95,579 or 22% compared to fiscal year 2016.
- The environment sector shall support the efforts of the Federated States of Micronesia to protect the Nation's land and marine environment and to conserve and achieve sustainable use of its natural resources. The total revenue is \$378,233 with the same total of expenditures, an increase of \$111,991 or 42% compared to fiscal year 2016.
- Public Infrastructure grant shall give priority to primary and secondary education capital projects and programs that directly affect health and safety including water and wastewater projects, solid waste disposal projects and health care facilities. Total funding of \$550,934 corresponds to total expenditures of the same amount. There were no funding received in fiscal years 2016 and 2015.
- The Supplemental Education Grant (SEG) is considered the seventh-sector grant. SEG has been offered in lieu of grants that were formerly available from various federal agencies. The federal programs that were incorporated into SEG are Territories & Freely Associated States Education Grant (T&FASEG), Adult Education & Family Literacy, Workforce Investment Act, Pacific Vocational Education Improvement Program and Early Childhood Program (formerly Head Start). For the year, the total expenditures incurred were \$2,515,105, a decrease of \$146,722 or 6% compared to fiscal year 2016.

**STATE OF POHNPEI
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Management's Discussion and Analysis
September 30, 2017

- The Enhanced Reporting & Accountability is a new grant that supports the finance functions of the Department of Treasury and Administration. It is aimed at developing and implementing systems, financial management procedures, and internal controls that account for and ensure reporting on the use of amended compact funds. For the year, total expenditures incurred were \$279,012 compared to \$273,640 or a decrease of \$5,372 from prior year.

Other major sources of funding under Grant Assistance Fund are the US Federal Grants and CFM Grants which respectively supported \$2,929,993 and \$1,551,607 of the expenditures of the State. Federal Grants decreased by \$24,713 or 1% compared to fiscal year 2016.

Total Grants Assistance Fund revenues increased by \$2,840,739 or 14% compared to fiscal year 2016.

General Fund Budgetary Highlights

During the year, the State revised its budget several times in the aggregate amount of \$523,000 to accommodate supplemental funding for departments and offices requiring increases in appropriations to avoid budget overruns. These matters are not believed to have a significant effect on future services. The State conforms to the most appropriate measures of utilizing its net assets due to inflationary adjustments.

The net increase in the State's general fund unassigned fund balance was \$3,648,631 compared with fund balance deficit of \$512,249 in fiscal year 2016.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The State's capital assets at the end of fiscal year 2017 consist basically of equipment, buildings, roads and bridges. Increase in capital assets was due to purchases of machinery, equipment and others under the Infrastructure Account. The summary of capital assets at the end of September 30 is shown below:

	<u>Primary Government Government Activities</u>	
	<u>2017</u>	<u>2016</u>
Buildings	\$ 24,841,744	\$ 24,841,744
Infrastructure	53,690,078	53,690,078
Machinery	<u>25,175,590</u>	<u>24,994,754</u>
Total	\$ <u>103,707,412</u>	\$ <u>103,526,576</u>

Note 5 of the accompanying financial statements presents more information about the State's capital assets.

Long-term Debt

At September 30 the State had long-term debt as shown below:

	<u>Government Activities</u>	
	<u>2017</u>	<u>2016</u>
Asian Development Bank loans	\$ <u>4,290,213</u>	\$ <u>4,383,146</u>

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FEDERATED STATES OF MICRONESIA**

Management's Discussion and Analysis
September 30, 2017

Notes 7 and 8 of the accompanying financial statements present more information about the State's long-term debt.

Economic Factors and Next Year's Budget

Funding for the operations of most of the government services in fiscal year 2018 will still come from the Compact II.

Fiscal year 2018 is the 15th year of the implementation of the economic assistance under the Compact II/Sector Grant. Sector funding replaces the funding sources from the old Compact I. Under the Compact II/Sector grant, the annual budget approved by JEMCO for fiscal year 2018 is as follows:

- For Education Sector Grant, which continues to be the funding priority, the annual budget is \$7,462,938.
- The Health Sector Grant's budget is \$6,118,315.
- The Private Sector Development Sector Grant's budget is nil.
- The Public Sector Capacity Building Sector Grant budget is \$421,313.
- The Environment Sector Grant is \$371,069.
- The Enhanced Reporting and Accounting Sector Grant budget is \$394,281.
- In the case of the Supplemental Education Grant (SEG), the total funding for fiscal year 2018 is \$2,602,603. The programs covered in the funding are Early Childhood Education, Education Improvement Programs, Workforce Development/Skill Training, Vocational Education and Staff Development.

For fiscal year 2018, the locally generated revenues, investment income and the revenue shares from the FSM National Government are projected at \$11,500,000: lower than recorded revenues of \$14,853,052 in fiscal year 2017. The revenues in fiscal year 2017 include higher dividends from the Caroline Fisheries Corp, higher investment income and revenues arising from sector grants close out from fiscal years 2010-2015. Some of those factors may not be present in FY 2018. However, the increase in local taxes specifically in tobacco and alcohol is projected to continue. We also expect a higher collection as we implement the amendment of the Tax Code which became effective in January 2016. As a result, the Department is confident that the projected revenue could be reached.

FINANCIAL CONTACT

This financial report is designed to provide all interested users with a general overview of the State of Pohnpei's finances. If you have questions about this report or need additional financial information, please contact the Office of the Director of Treasury and Administration, P.O. Box 1567 Kolonia, Pohnpei FM 96941.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Net Position
September 30, 2017

	Primary Government	Component Units
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 1,978,093	\$ 5,606,603
Time certificate of deposit	-	227,524
Investments	4,570,801	234,790
Receivables, net	5,629,227	5,117,984
Advances	229,972	29,435
Inventories	-	355,990
Other current assets	-	275,875
Restricted assets:		
Cash and cash equivalents	1,912,479	978,109
Total current assets	14,320,572	12,826,310
Noncurrent assets:		
Capital assets:		
Nondepreciable capital assets	-	3,348,354
Capital assets, net of accumulated depreciation	26,327,591	37,374,380
Investments	1,162,979	-
Receivables	-	1,965,292
Other assets	1,000,000	-
Restricted assets:		
Cash and cash equivalents	-	516,937
Investments	20,511,413	-
Total noncurrent assets	49,001,983	43,204,963
Total assets	\$ 63,322,555	\$ 56,031,273
<u>LIABILITIES</u>		
Current liabilities:		
Short-term debt	\$ -	\$ 549,131
Current portion of long-term obligations	229,794	577,064
Compensated absences payable	381,767	-
Accounts payable	2,289,309	3,648,342
Other liabilities and accruals	954,884	727,742
Due to primary government	-	1,476,090
Unearned revenues	1,344,450	395,163
Total current liabilities	5,200,204	7,373,532
Noncurrent liabilities:		
Long-term obligations, net of current portion	4,060,419	8,484,337
Claims and judgments payable	210,968	-
Total noncurrent liabilities	4,271,387	8,484,337
Total liabilities	9,471,591	15,857,869
Contingencies and commitments		
<u>NET POSITION</u>		
Net investment in capital assets	26,327,591	31,785,111
Restricted for:		
Nonexpendable:		
Future operations	16,264,947	-
Expendable:		
Debt service	4,246,466	-
Compact related	119,862	-
Other purposes	4,618,383	5,761,807
Unrestricted	2,273,715	2,626,486
Total net position	53,850,964	40,173,404
Total liabilities and net position	\$ 63,322,555	\$ 56,031,273

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Activities
Year Ended September 30, 2017

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units
Functions/Programs						
Primary government:						
Governmental activities:						
General government	\$ 7,564,057	\$ 1,226,950	\$ 3,221,834	\$ -	\$ (3,115,273)	\$ -
Land and natural resources	568,513	31,226	154,619	-	(382,668)	-
Education	11,739,170	-	11,684,412	-	(54,758)	-
Health services	7,876,030	1,265,648	7,843,172	-	1,232,790	-
Public safety	1,423,010	93,564	-	-	(1,329,446)	-
Attorney-general	329,026	-	-	-	(329,026)	-
Public works and transportation	81,013	76,357	-	-	(4,656)	-
Non-governmental agencies	2,132,155	-	-	-	(2,132,155)	-
Boards, commissions and others	995,292	-	-	-	(995,292)	-
Municipal governments	2,428,311	-	-	-	(2,428,311)	-
Capital projects	550,934	-	-	550,934	-	-
Total primary government	\$ 35,687,511	\$ 2,693,745	\$ 22,904,037	\$ 550,934	(9,538,795)	-
Component units:						
Pohnpei Utilities Corporation	\$ 13,581,294	\$ 11,591,577	\$ -	\$ 107,485	-	(1,882,232)
Pohnpei Port Authority	3,323,876	4,314,032	-	-	-	990,156
Pohnpei Transportation Authority	1,386,567	1,058,097	-	2,035,940	-	1,707,470
Small Business Guarantee and Finance Corporation	268,343	122,068	-	335,980	-	189,705
Pohnpei State Housing Authority	168,380	271,497	-	-	-	103,117
Total component units	\$ 18,728,460	\$ 17,357,271	\$ -	\$ 2,479,405	-	1,108,216
General revenues:						
Taxes:						
FSM revenue sharing:						
Gross revenue taxes					2,177,521	-
Import taxes					3,218,622	-
Income taxes					2,447,587	-
Other taxes					313,225	-
State taxes					3,065,715	-
Unrestricted investment earnings					814,772	-
Other					2,758,963	230,193
Total general revenues					14,796,405	230,193
Special item - loss on SDR foreign exchange					(39,753)	-
Contributions to permanent fund					2,143,523	-
Total general revenues, special item and contributions					16,900,175	230,193
Change in net position					7,361,380	1,338,409
Net position at the beginning of the year					46,489,584	38,834,995
Net position at the end of the year					\$ 53,850,964	\$ 40,173,404

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Balance Sheet
Governmental Funds
September 30, 2017

		Special Revenue	Permanent	Other Governmental Funds	Total
	General	Grants Assistance	Compact Trust		
ASSETS					
Cash and cash equivalents	\$ 1,978,093	\$ -	\$ -	\$ -	\$ 1,978,093
Investments	5,733,780	-	-	-	5,733,780
Receivables, net:					
General	824,751				824,751
Taxes	1,488,184	-	-	-	1,488,184
Due from FSM National Government	-	3,223,117	-	45,497	3,268,614
Other	35,000	12,678	-	-	47,678
Due from other funds	1,901,453	1,558,986	-	5,073,988	8,534,427
Advances	100,334	125,116	-	4,522	229,972
Other assets	1,000,000	-	-	-	1,000,000
Restricted assets:					
Cash and cash equivalents	1,904,779	7,700	-	-	1,912,479
Investments	4,246,466	-	16,264,947	-	20,511,413
Total assets	<u>\$ 19,212,840</u>	<u>\$ 4,927,597</u>	<u>\$ 16,264,947</u>	<u>\$ 5,124,007</u>	<u>\$ 45,529,391</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 731,504	\$ 1,379,574	\$ -	\$ 178,231	\$ 2,289,309
Other liabilities and accruals	445,233	503,742	-	5,909	954,884
Unearned revenues	-	988,772	-	355,678	1,344,450
Due to other funds	6,632,974	1,885,489	-	15,964	8,534,427
Total liabilities	<u>7,809,711</u>	<u>4,757,577</u>	<u>-</u>	<u>555,782</u>	<u>13,123,070</u>
Fund balances:					
Non-spendable	2,263,313	-	16,264,947	3,402	18,531,662
Restricted	5,110,652	170,020	-	-	5,280,672
Committed	148,716	-	-	4,681,692	4,830,408
Assigned	231,817	-	-	-	231,817
Unassigned:					
General fund	3,648,631	-	-	-	3,648,631
Special revenue funds	-	-	-	(116,869)	(116,869)
Total fund balances	<u>11,403,129</u>	<u>170,020</u>	<u>16,264,947</u>	<u>4,568,225</u>	<u>32,406,321</u>
Total liabilities and fund balances	<u>\$ 19,212,840</u>	<u>\$ 4,927,597</u>	<u>\$ 16,264,947</u>	<u>\$ 5,124,007</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	26,327,591
Long-term liabilities, including loans payable, are not due and payable in the current period and, therefore, are not reported in the funds. The liabilities include:	
Long-term debt payable	(4,290,213)
Compensated absences payable	(381,767)
Claims and judgments payable	(210,968)
	<u>(4,882,948)</u>
Net position of governmental activities	<u>\$ 53,850,964</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2017

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Revenues:					
Compact funding	\$ -	\$ 18,351,714	\$ -	\$ 239,889	\$ 18,591,603
Net change in the fair value of investments	814,772	-	2,143,523	-	2,958,295
CFSM grants	-	1,551,607	-	-	1,551,607
Federal contributions and other grants	-	3,311,761	-	-	3,311,761
FSM revenue sharing	8,156,955	-	-	-	8,156,955
State taxes	2,697,746	-	-	367,969	3,065,715
Fees and charges	424,616	-	-	2,269,129	2,693,745
Other	2,758,963	-	-	-	2,758,963
Total revenues	14,853,052	23,215,082	2,143,523	2,876,987	43,088,644
Expenditures:					
Current:					
General government	3,213,020	2,875,771	-	1,270,471	7,359,262
Land and natural resources	429,100	154,619	-	-	583,719
Education	83,161	11,684,412	-	-	11,767,573
Health services	51,553	7,843,172	-	207,262	8,101,987
Public safety	1,236,951	-	-	-	1,236,951
Office of the Attorney-General	357,838	-	-	-	357,838
Public works	181,439	-	-	-	181,439
Payments to non-governmental agencies	770,144	-	-	-	770,144
Boards, commissions and other	1,085,604	-	-	-	1,085,604
Grants to local governments	2,428,311	-	-	-	2,428,311
Capital projects	-	550,934	-	-	550,934
Debt service	257,757	-	-	-	257,757
Total expenditures	10,094,878	23,108,908	-	1,477,733	34,681,519
Net change in fund balances	4,758,174	106,174	2,143,523	1,399,254	8,407,125
Fund balances at the beginning of the year	6,644,955	63,846	14,121,424	3,168,971	23,999,196
Fund balances at the end of the year	\$ 11,403,129	\$ 170,020	\$ 16,264,947	\$ 4,568,225	\$ 32,406,321

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Reconciliation of the Statement of Revenues, Expenditure, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2017

Amounts reported for governmental activities in the statement of activities are different than the net change in fund balances because:

Net change in fund balances - total governmental funds	\$ 8,407,125
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$2,272,540) exceeded capital outlays (\$733,336) in the current period.	(1,539,204)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. For the current year, these amounts consist of:

Repayment of ADB loans and special item associated with loss on SDR foreign exchange adjustment.	92,933
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. For the current year, these activities consist of:

Net change in compensated absences payable	<u>400,526</u>
Change in net position of governmental activities	\$ <u>7,361,380</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Statement of Net Position
Component Units
September 30, 2017

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,011,846	\$ 4,274,620	\$ -	\$ 800	\$ 319,337	\$ 5,606,603
Time certificate of deposit	227,524	-	-	-	-	227,524
Investments	-	234,790	-	-	-	234,790
Receivables, net	1,291,850	393,584	-	393,107	3,039,443	5,117,984
Inventories	139,269	25,311	191,410	-	-	355,990
Advances	-	26,697	2,738	-	-	29,435
Other current assets	274,847	-	-	-	1,028	275,875
Restricted assets:						
Cash and cash equivalents	-	-	-	978,109	-	978,109
Total current assets	2,945,336	4,955,002	194,148	1,372,016	3,359,808	12,826,310
Noncurrent assets:						
Receivables, net	1,256,912	229,868	-	478,512	-	1,965,292
Capital assets:						
Nondepreciable capital assets	432,844	2,915,510	-	-	-	3,348,354
Capital assets, net of accumulated depreciation	32,005,389	3,589,601	1,718,294	8,390	52,706	37,374,380
Restricted:						
Cash and cash equivalents	516,937	-	-	-	-	516,937
Other assets	-	-	-	-	-	-
Total noncurrent assets	34,212,082	6,734,979	1,718,294	486,902	52,706	43,204,963
Total assets	\$37,157,418	\$11,689,981	\$ 1,912,442	\$ 1,858,918	\$ 3,412,514	\$ 56,031,273
LIABILITIES						
Current liabilities:						
Short-term debt	\$ 549,131	\$ -	\$ -	\$ -	\$ -	\$ 549,131
Current portion of long-term debt	577,064	-	-	-	-	577,064
Accounts payable	3,569,087	16,552	62,689	14	-	3,648,342
Other liabilities and accruals	360,815	304,307	31,563	8,969	22,088	727,742
Due to primary government	-	20,553	1,363,873	-	91,664	1,476,090
Unearned revenues	391,989	-	3,174	-	-	395,163
Total current liabilities	5,448,086	341,412	1,461,299	8,983	113,752	7,373,532
Noncurrent liabilities:						
Noncurrent portion of long-term debt	8,484,337	-	-	-	-	8,484,337
Total liabilities	13,932,423	341,412	1,461,299	8,983	113,752	15,857,869
NET POSITION						
Net investment in capital assets	23,500,610	6,505,111	1,718,294	8,390	52,706	31,785,111
Restricted	723,150	-	-	1,792,601	3,246,056	5,761,807
Unrestricted	(998,765)	4,843,458	(1,267,151)	48,944	-	2,626,486
Total net position	23,224,995	11,348,569	451,143	1,849,935	3,298,762	40,173,404
	\$37,157,418	\$11,689,981	\$ 1,912,442	\$ 1,858,918	\$ 3,412,514	\$ 56,031,273

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Statement of Revenues, Expenses, and Changes in Net Position
Component Units
Year Ended September 30, 2017

	Pohnpei Utilities Corporation	Pohnpei Port Authority	Pohnpei Transportation Authority	Small Business Guarantee and Finance Corporation	Pohnpei State Housing Authority	Total
Operating revenues:						
Charges for services	\$ 11,591,577	\$ 4,314,032	\$ 1,058,097	\$ 122,068	\$ 271,497	\$ 17,357,271
Total operating revenues	<u>11,591,577</u>	<u>4,314,032</u>	<u>1,058,097</u>	<u>122,068</u>	<u>271,497</u>	<u>17,357,271</u>
Operating expenses:						
Cost of services	9,582,210	-	-	-	-	9,582,210
Administration costs	1,780,326	2,817,070	1,032,132	264,194	152,196	6,045,918
Depreciation and amortization	2,218,758	506,806	354,435	4,149	16,184	3,100,332
Total operating expenses	<u>13,581,294</u>	<u>3,323,876</u>	<u>1,386,567</u>	<u>268,343</u>	<u>168,380</u>	<u>18,728,460</u>
Operating income (loss)	<u>(1,989,717)</u>	<u>990,156</u>	<u>(328,470)</u>	<u>(146,275)</u>	<u>103,117</u>	<u>(1,371,189)</u>
Nonoperating revenues (expenses):						
Contributions from the primary government	-	-	-	44,000	114,887	158,887
Interest income (expense)	(193,315)	29,450	-	2,350	-	(161,515)
Other	118,021	4,941	109,859	-	-	232,821
Total nonoperating revenues (expenses), net	<u>(75,294)</u>	<u>34,391</u>	<u>109,859</u>	<u>46,350</u>	<u>114,887</u>	<u>230,193</u>
Net income (loss) before capital contributions	<u>(2,065,011)</u>	<u>1,024,547</u>	<u>(218,611)</u>	<u>(99,925)</u>	<u>218,004</u>	<u>(1,140,996)</u>
Capital contributions	107,485	-	2,035,940	335,980	-	2,479,405
Change in net position	<u>(1,957,526)</u>	<u>1,024,547</u>	<u>1,817,329</u>	<u>236,055</u>	<u>218,004</u>	<u>1,338,409</u>
Net position at the beginning of the year	<u>25,182,521</u>	<u>10,324,022</u>	<u>(1,366,186)</u>	<u>1,613,880</u>	<u>3,080,758</u>	<u>38,834,995</u>
Net position at the end of the year	<u>\$ 23,224,995</u>	<u>\$ 11,348,569</u>	<u>\$ 451,143</u>	<u>\$ 1,849,935</u>	<u>\$ 3,298,762</u>	<u>\$ 40,173,404</u>

See accompanying notes to financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies

The State of Pohnpei (the State) was constituted on November 8, 1984, under the provisions of the Pohnpei State Constitution (the Constitution) as approved by the people of Pohnpei. The Constitution provides for the separation of powers of the executive, legislative, and judicial branches of the government.

The accompanying financial statements of the State have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are described below.

A. Reporting Entity

The State is one of the four states that make up the Federated States of Micronesia (FSM), along with the states of Chuuk, Kosrae and Yap. The State is a constitutional government comprised of three branches: the Legislative Branch, consisting of 23 members elected for a term of four years by qualified voters of their respective election districts; the Executive Branch, headed by the Governor and Lt. Governor, who are primarily responsible for executing the laws and administering state government services; and the Judiciary Branch made up of the State Supreme Court, which consists of a Chief Justice and up to four Associate Justices, and other courts that may be created by law.

For financial reporting purposes, the State has included all funds, organizations, agencies, boards, commissions and institutions. The State has also considered all potential component units for which it is financially accountable as well as other entities for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The criteria to be considered in determining financial accountability include whether the State, as the primary government, has appointed a voting majority of an organization's governing body and either has the ability to impose its will on that organization or there is potential for the organization to provide specific financial benefits to or impose specific financial burdens on the State. Financial accountability also exists if an organization is determined to be fiscally dependent on the primary government, although the primary government does not appoint a voting majority of the organization's governing board.

Each blended and discretely presented component unit of the State has a September 30 year-end.

Once financial accountability has been determined for a potential component unit, that component unit is either blended into the primary government or discretely presented from the primary government. Potential component units that do not meet the financial accountability criteria, but where a voting majority of the governing board is appointed by the State, are deemed to be related organizations. The nature and relationship of the State's component units and related organizations are disclosed in the following section.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Blended component units are entities that are legally separate from the State, but are so related to the State that they are, in substance, the same as the State or entities providing services entirely or almost entirely to the State. The State has not identified any entities that should be so blended.

Discretely Presented Component Units:

Discretely presented component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's basic financial statements to be misleading or incomplete. The component units' column of the basic financial statements includes the financial data of the following major component units:

Pohnpei Utilities Corporation (PUC): PUC was created by Pohnpei State Public Law (PSPL) No. 2L-179-91 and is responsible for providing electrical, water and sewer services to the people of Pohnpei through the operation of the electric power, water and sewer systems. PUC is governed by a seven-member Board of Directors appointed by the Governor with the advice and consent of the Legislature. The State provides financial support to PUC through legislative appropriations and has the ability to impose its will on PUC.

Pohnpei Port Authority (PPA): PPA was created by PSPL No. 2L-224-91 and is responsible for overseeing the use and maintenance of the State's sea and air ports. PPA is governed by a seven-member Board of Directors, consisting of representatives of the State appointed by the Governor with the advice and consent of the Legislature. The State has the ability to impose its will on PPA.

Pohnpei Transportation Authority (PTA): PTA was created by PSPL No. 169-69 and is responsible for promotion, development, and improving transportation facilities of the State. PTA is governed by a seven-member Board of Directors, consisting of representatives of the State appointed by the Governor with the advice and consent of the Legislature. The State has the ability to impose its will on PTA.

Small Business Guarantee and Finance Corporation (SBGFC): SBGFC was created by PSPL No. 3L-86-95 to provide, promote, develop and widen in both scope and services reach various alternative modes of financing for small enterprises, including, but not limited to, direct and indirect project lending, venture capital, financial leasing, secondary mortgage and rediscounting of loan papers to small businesses. SBGFC is governed by a seven-member Board of Directors, consisting of four representatives of the State and three representatives from the private sector appointed by the Governor with the advice and consent of the Legislature. The State provides financial support to SBGFC through legislative appropriations and has the ability to impose its will on SBGFC.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

A. Reporting Entity, Continued

Discretely Presented Component Units, Continued:

Pohnpei State Housing Authority (PSHA): PSHA was created by PSPL No. 2L-81-88 for the purpose of facilitating, through low-interest loans, the construction of safe and sanitary residential housing for low income families of the State, and for monitoring the Housing Preservation Grant (HPG) loan funds extended by United States Department of Agriculture Rural Development. PSHA is governed by a five-member Board of Directors appointed by the Governor with the advice and consent of the Legislature. The State provides financial support to PSHA through legislative appropriations and has the ability to impose its will on PSHA.

The State's component units, departments, and funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities or obtaining them directly from the Office of the Public Auditor at the following address:

P.O. Box 370
Kolonias, Pohnpei, FSM 96941

B. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities report financial information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements except for other charges between the primary government and the discretely presented component units. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Primary government activities are defined as either governmental or business-type activities. Governmental activities, which normally are supported by taxes, intergovernmental revenues and other non-exchange revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services. As such, business-type activities account for operations similarly to a for-profit business. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Discretely presented component unit activities are presented with their business-type focus.

The Statement of Net Position presents all of the reporting entity's non-fiduciary assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

B. Government-Wide Financial Statements, Continued

- Restricted net position - nonexpendable consists of permanent funds in which donors or other outside sources have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to the principal.
- Restricted net position - expendable consists of resources in which the State is legally or contractually obligated to spend resources in accordance with restrictions either externally imposed by creditors, grantors, contributors, and the like, or imposed by law.
- Unrestricted net position consists of net position, which does not meet the definition of the two preceding categories. Unrestricted net position often is designated, (for example, internally restricted), to indicate that management does not consider such to be available for general operations.

The government-wide Statement of Net Position reports \$25,249,658 of restricted net position, of which \$4,618,383 is restricted by enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are, instead, reported as general revenue.

C. Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds. Major individual governmental funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor governmental funds being combined into a single column.

The State reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements:

The government-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. General revenue is derived from taxation, investment income and other fees that are not allocated to specific programs.

Governmental Fund Financial Statements:

Governmental fund financial statements account for the general governmental activities of the State and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Significant revenues susceptible to accrual include income and gross revenue taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Miscellaneous revenues from other financing sources are recognized when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures generally are recorded in the period in which the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Component Unit Financial Statements:

Discretely presented component units distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a discretely presented component unit's principal ongoing operations. All other revenues are reported as nonoperating. Operating expenses includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

D. Measurement Focus and Basis of Accounting, Continued

Fund Accounting:

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses for either fund category or the governmental and enterprise combined) for the determination of major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a column in the fund financial statements and detailed in the combining statements. The State reports the following major funds:

General Fund - this fund is the primary operating fund of the State. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Grants Assistance Fund - a Special Revenue Fund that accounts for funds received under sector grants pursuant to the amended Compact of Free Association; all financial transactions of federally assisted funds, which are subgranted to the State, as well as other direct federal grants that the State received from the United States government, and foreign assistance grants.

Section 215 Compact Trust Fund - a Permanent Fund that accounts for the State's contributions to the Trust Fund established in accordance with Section 215 of the Compact of Free Association, as amended, to provide for an additional source of revenue for the government budget that will be needed to substitute for the absence of Compact of Free Association funding.

E. Cash and Cash Equivalents and Time Certificates of Deposit

Cash and cash equivalents of the primary government and the discretely presented component units include cash held in demand accounts as well as short-term investments with maturity dates within three months of the date acquired by the State. Deposits maintained in time certificates of deposit with original maturity dates greater than ninety days are separately classified on the statement of net position/balance sheet.

F. Investments

Investments and related investment earnings of the primary government and the discretely presented component units are recorded at fair value using quoted market prices. Fair value is the price that would be received to sell an asset or paid to transfer a liability (ie., the exit price) in an orderly transaction between market participants at the date as of which the fair value of an asset or liability is determined.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

F. Investments, Continued

The State categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement. Investments not categorized under the fair value hierarchy are shown at either Net Asset Value (NAV) or amortized cost.

G. Receivables

In general, tax revenue is recognized on the government-wide financial statements when assessed or levied and on the governmental fund financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts. Federal receivables include those funds which are earned, primarily from FSM National Government administered federal grants, which have yet to be reimbursed by the applicable grantor.

Receivables of the primary government and the discretely presented component units are primarily due from businesses and individuals residing in the State. The State establishes an allowance for doubtful accounts receivable based on the credit risk of specific customers, historical trends and other information.

H. Prepaid Items

Certain payments made to vendors or persons for services reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

I. Interfund Receivables/Payables

During the course of its operations, the State records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the governmental fund balance sheet.

These balances result from time lags between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made, and are scheduled to be collected in the subsequent year.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

J. Inventories

Inventories of materials and supplies are determined by physical count and are valued at the lower of cost (principally average cost) or market.

Inventories of the discretely presented component units are comprised of materials and diesel fuel and are valued at the lower of cost (FIFO) or market.

K. Restricted Assets

Certain assets of the primary government are classified as restricted assets because their use is completely restricted through enabling legislation and loan agreements. Specifically, the State has collateralized investments in the amount of \$4,246,466 for the Pohnpei State Early Retirement Scheme. Furthermore, investments recorded in the Compact Trust Fund of \$16,264,947 are restricted in that they are not available to be used in current operations.

As of September 30, 2017, cash and cash equivalents were restricted for the following uses:

Primary Government:

Deposits with a local bank restricted for the purchase of medical supplies for the State hospital.	\$ 518,484
State Hospital's Honolulu imprest fund.	7,700
Savings accounts established in accordance with Section 211(d)(2) of the Compact of Free Association, as amended, for the purpose of funding the State's infrastructure maintenance plan	
Compact Sector Grants	1,040,593
Loan Guarantee Escrow Account established for the sole purpose of loan collateralization made through the USDA Rural Development. The escrow account may be drawn down in the event of a borrower's default on the obligation under the terms of the promissory note and the deed of trust security instrument supporting such note and for which such note is guaranteed by PSHA, the trustee of the Loan Guarantee Escrow Account.	<u>345,702</u>
	\$ <u>1,912,479</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

K. Restricted Assets, Continued

Discretely Presented Component Units:

Pohnpei Utilities Corporation:

Deposit accounts collateralizing loans payable to the FSM Development Bank and the Bank of the FSM	\$ 516,937
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Small Business Guarantee and Finance Corporation:

Deposit accounts restricted for various operations of the Small Business Guarantee and Finance Corporation	<u>987,109</u>
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\$ 1,504,046

L. Other Assets

The State holds approximately 13% of the outstanding shares of Pacific Islands Development Bank with a carrying value of \$1,000,000. This equity interest does not meet the definition of an investment as the asset is held primarily for economic development and is presented as other assets in the accompanying financial statements.

M. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, ramps and other similar items), are reported in the governmental activity column of the government-wide financial statements. Such assets, whether purchased or constructed, are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at fair market value at the date of donation.

The State currently holds no title to land. Machinery and equipment, other than vehicles and boats, are capitalized when the cost of individual items exceed \$50,000. Vehicles and boats, along with significant repair and maintenance qualifying as a betterment of such, are capitalized regardless of cost and depreciated. Building and infrastructure projects, along with significant improvements or reconstruction qualifying as a betterment of such, are capitalized when the cost of individual items or projects exceed \$100,000. The costs of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized. Additionally, as of fiscal year 2004, the State chose to capitalize assets acquired with U.S. federal funds that have an acquisition cost of \$5,000 or more.

Capital assets of the primary government and the discretely presented component units are depreciated using the straight line method over their estimated useful lives, with a full year's depreciation charged in the year of acquisition and disposal, regardless of date. Estimated useful lives are as follows:

Buildings	40 - 50 years
Infrastructure	25 - 50 years
Facilities	3 - 40 years
Machinery and equipment	3 - 25 years
Furniture and fixtures	3 - 10 years

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

N. Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (deduction of net position) until then. The State has no items that qualify for reporting in this category.

O. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Annual leave accumulates at 240 hours per calendar year. All unused annual leave is cancelled at the end of each calendar year.

P. Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (additions to net position) until then. The State has no items that qualify for reporting in this category.

Q. Unearned Revenues

In the government-wide financial statements, unearned revenues are recognized when cash, receivables or other assets are recorded prior to their being earned. In the governmental fund financial statements, unearned revenues represent monies received or revenues accrued which have not been earned or do not meet the "available" criterion for revenue recognition under the modified accrual basis of accounting. The unearned revenue in the governmental fund financial statements has primarily resulted as federal funds are received in advance of eligible expenditures.

R. Fund Balance

Fund balance classifications are based on the extent to which the State is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

R. Fund Balance, Continued

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned - includes negative fund balances in other governmental funds.

The State has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed, assigned, and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the State is to use committed resources first, followed by assigned, and then unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

S. Interfund/Intrafund Transactions

As a general rule, the effect of interfund activity has been eliminated in the government-wide financial statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

T. New Accounting Standards

During fiscal year 2017, the State implemented the following pronouncements:

- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which aligns the reporting requirements for pensions and pension plans not covered in GASB Statements 67 and 68 with the reporting requirements in Statement 68.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and addresses financial reporting requirements for governments whose employees are provided with postemployment benefits other than pensions (other postemployment benefits or OPEB).

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

- GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose certain information about the agreements.
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, which improves financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The implementation of these statements did not have a material effect on the accompanying financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and provides guidance on reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions in Statement No. 81 are effective for fiscal years beginning after December 15, 2016. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) associated with the retirement of a tangible capital asset. The provisions in Statement No. 83 are effective for fiscal years beginning after June 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

T. New Accounting Standards, Continued

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. The provisions in Statement No. 84 are effective for fiscal years beginning after December 15, 2018. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which address practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions in Statement No. 85 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions in Statement No. 86 are effective for fiscal years beginning after June 15, 2017. Management does not believe that the implementation of this statement will have a material effect on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The provisions in Statement No. 87 are effective for fiscal years beginning after December 15, 2019. Management has yet to determine whether the implementation of this statement will have a material effect on the financial statements.

U. Risk Financing

The State is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the primary government not to purchase commercial insurance for the risks of loss to which it is exposed. Instead, the State management believes it is more economical to manage its risks internally. In the event of claim settlements and judgments, the State reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. No losses have occurred as a result of these risks in any of the past three fiscal years.

V. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and deferred outflows of resources, liabilities and deferred inflows of resources, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(1) Summary of Significant Accounting Policies, Continued

W. Total Columns

Total columns are presented primarily to facilitate financial analysis. The Management's Discussion and Analysis includes certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the State's financial statements for the year ended September 30, 2016 from which summarized information was derived.

(2) Deposits and Investments

The deposit and investment policies of the State are governed by State legislation. The Treasurer is responsible for ensuring that deposits of the General Fund are maintained in commercial checking or savings accounts of any financial institution whose assets are at least \$1 billion and whose deposits are subject to Federal Deposit Insurance Corporation (FDIC) insurance. The Governor is responsible for the investment of any monies of the State that are deemed not necessary for immediate use.

The Federated Development Authority has selected investment managers who are given authority to buy and sell securities. These investment managers may invest in stocks, bonds and cash equivalents, for which minimum standards of quality of such investments at the time of purchase shall be as follows:

- i. Cash equivalents - the investment manager may engage in all normally accepted short-term investment practices including, but not limited to U.S. Treasury and government agency securities, bankers acceptances, certificates of deposit, commercial paper and repurchase agreements using any of the foregoing as collateral. The following restrictions apply: (1) Commercial paper must be rated A-1/P-1 or higher by Standard & Poors Corporation and Moody's Investor Services; and (2) Certificates of deposit must be from FDIC insured banks or FSLIC insured savings and loan associations, both of which must have assets in excess of \$2 billion. Deposits in smaller institutions are acceptable, but must not exceed the amount of the insurance, unless collateralized by U.S. Treasury obligations at 102%.
- ii. Stocks - A "B" rating by a national rating service. Non-rated stocks, such as banks or insurance companies, must be equal in quality or higher.
- iii. Bonds - Confined to issues rated "A" or higher by a national rating service, except in the case of U.S. Treasury or government agency obligations which are not rated.

The equity portfolio shall be diversified among issues and industry classifications. No more than 25% of the equity portfolio may be invested in any single classification, as described by the Standard and Poors 500 Index, unless prior approval is received from the Secretary of Finance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(2) Deposits and Investments, Continued

No investment may be made in a single corporate entity which exceeds 5% of the total assets of the fund at the time of purchase without prior approval of the Secretary of Finance.

The Secretary of Administration and Finance shall be responsible for investment of all public funds collected or appropriated for use by the State. Funds under this arrangement shall include all appropriations from the State, whether funds are appropriated from the State Treasury or funds from other sources. Any funds in excess of the amount necessary for the operation of the State shall be deposited or invested to earn the safest optimum interest. The Secretary shall determine the amount to be invested with the consideration that such amount should not cause disruption of any government service due to low or lack of funds in the operational budget. The Secretary shall cause all investments to be made into financially secure institutions in Pohnpei or abroad as determined by the financial institution paying the highest rate of interest on savings when the investment is made.

The investment policy for the Compact Trust Fund (the Trust Fund), which was adopted by the Trust Fund Committee on September 15, 2010 and amended through December 17, 2013 requires the Trust Fund to allocate its managed investment portfolios among domestic and foreign equity and fixed income securities. All or a portion of the Trust Fund may be invested in exchange traded funds ("ETFs"), mutual funds, real estate investment trusts ("REITs"), separate accounts and common trust funds (commingled vehicles), hedge funds, private equity funds, and other pooled investment vehicles ("pooled vehicles"). A common trust fund is similar to an open-ended investment company or mutual fund, but participation is limited to investors with trust accounts. Commingled and pooled vehicles that invest exclusively in marketable fixed income securities are considered to be fixed income securities for the purpose of compliance with the Trust Fund's investment policy.

The fair values of ETFs, mutual funds, and common trust funds are generally determined by the fair value of the underlying marketable equity and debt securities owned, which are principally common stocks and bonds, respectively. Publicly traded ETFs, mutual funds, and similar vehicles may trade at prices above or below the fair values of the underlying investments held; therefore the fair value of such investments may differ from the sum of the fair values of the underlying investments owned. The core fixed income portfolios may be invested in debt securities issued by the U.S. government and government agencies, foreign governments, domestic and international corporate securities, including asset-backed and mortgage-backed obligations. The fixed income portfolio may invest in convertible and high yield debt securities; however the average quality of the fixed income portfolio must be rated "investment grade" by at least one nationally recognized rating agency at the time of purchase. The Trust Fund's fixed income investment objective is for each portfolio to achieve total return similar to a relevant index, such as Barclays Capital Aggregate Index and the Bank of America Merrill Lynch Global High Yield Index.

The Trust Fund's equity investment objective is for its various portfolios to achieve total returns similar to their benchmark equity indices. Benchmark indices include the Russell 3000, the S&P 500 and the MSCI EAFE.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(2) Deposits and Investments, Continued

Private equity funds are a form of pooled investment vehicle, typically limited partnerships controlled by a private equity firm that acts as general partner. The general partner seeks to obtain specific dollar commitments from qualified institutional and accredited investors to invest capital in the fund as limited partners. The passive limited partners fund pro rata portions of their commitments when the general partner has identified an appropriate opportunity, which may be venture capital in the form of equity securities, convertible debt securities, or real estate for which no active markets exist. Venture capital is often used to finance new products and technologies, expand working capital, make acquisitions, or finance leveraged buyouts. A typical private equity fund could make between 15 and 25 separate investments over a ten-year life, with no single investment exceeding 10% of the total capital commitment. The fair values of the underlying investments held by each private equity fund are generally determined by management of the equity investee or as determined by the general partner or manager of the private equity fund and is based upon the Trust Fund's percentage ownership of the underlying investments. Investments in private equity funds generally tend to be illiquid for significant periods of time.

Hedge funds are a form of pooled investment vehicle, generally a limited partnership or a foreign (off-shore) investment corporation, that seeks to maximize absolute returns whose offering memorandum allows for the fund to take both long and short positions, use leverage and derivatives, and invest in many markets. Hedge funds often take large risks using a broad range of speculative strategies, including investing in unconventional and illiquid investments. The fair value of the Trust Fund's investment in a hedge fund is determined by the hedge fund manager and is based upon the Trust Fund's percentage ownership of the underlying investments.

Commingled separate accounts invested in real estate and related assets are carried at fair value of the underlying investments. The fair value of separate account investments in real property real estate partnerships are generally determined based on independent appraisals obtained no less frequently than annually. The fair value of separate account investments in real estate partnerships are generally determined based upon the equity method of accounting, and the fair value of underlying investments in real estate loans and mortgages are generally determined through the use of cash flow forecasting or other models by management of the insurance company that manages the separate account.

Derivatives, options and future contracts are permitted investments for the purpose of reducing risk and efficient portfolio management. Derivatives, options and futures may not be used for speculative purposes.

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the State's deposits may not be returned to it. Such deposits are not covered by depository insurance and are either uncollateralized, or collateralized with securities held by the pledging financial institution or held by the pledging financial institution but not in the depositor-government's name. The State does not have a deposit policy for custodial credit risk.

As of September 30, 2017, the carrying amount of the primary government's total cash and cash equivalents was \$3,890,572 and the corresponding bank balances were \$5,739,086, which are maintained in financial institutions subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2017, bank deposits in the amount of \$500,000 were FDIC insured.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(2) Deposits and Investments, Continued

A. Deposits, Continued

As of September 30, 2017, the carrying amount of the discretely presented component units' total cash and cash equivalents and time certificates of deposit was \$7,329,173 and the corresponding bank balances were \$7,601,004 which were maintained in financial institutions subject to FDIC insurance. As of September 30, 2017, bank deposits in the amount of \$1,570,170 were FDIC insured. The component units do not require collateralization of their cash deposits; therefore, deposit levels in excess of FDIC insurance coverage are uncollateralized. Therefore, these deposits are exposed to custodial credit risk.

B. Investments

Primary Government:

As of September 30, 2017, the State's investments are as follows:

General Fund:

Fixed income	\$ 2,926,899
Domestic equities	1,162,979
Common equities	5,581,096
Cash management account	<u>309,272</u>

9,980,246

Compact Trust Fund:

Common trust funds:

Domestic Equity	3,960,359
International Equity	5,316,799
Private Equity	1,168,080
Fixed Income	3,272,181
Hedge Fund	871,218
Real Estate	1,634,572
Money market funds	<u>41,738</u>

16,264,947

\$ 26,245,193

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

As of September 30, 2017, the State's fixed income securities, including their Moody's Investors Service credit ratings, had the following maturities:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>					<u>Credit Ratings</u>
	<u>Fair Value</u>	<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>	
U.S. Treasury Notes and Bonds	1,024,136	640,138	120,550	234,271	29,177	Aaa
U.S. Government Agencies Obligations:						
Federal Home Loan Bank Disc	25,058	-	-	25,058	-	Aaa
Federal Home Loan Mortgage Corp	15,876	618	644	-	14,614	Aaa
Federal National Mortgage Association	107,954	79,128	11,301	-	17,525	Aaa
Government National Mortgage Corp	927	-	-	-	927	Aaa
Overseas Private Inv Corp	86,135	-	-	86,135	-	Aaa
Private Export Funding Secured	33,450	-	-	33,450	-	Aaa
Tennessee Valley Authority	17,672	-	-	17,672	-	Aaa
Freddie Mac	30,609	-	16,147	14,462	-	Aaa
U.S. Agency	41,444	41,444	-	-	-	A2
Municipal obligations	66,325	-	33,383	19,832	13,110	Aa1
Mortgage-Backed	403,711	403,711	-	-	-	Aa1
Asset Backed	28,166	28,166	-	-	-	Aa3
Corporate Bonds	103,670	32,304	37,226	24,563	9,577	Aaa
Corporate Bonds	50,288	-	40,616	9,672	-	Aa1
Corporate Bonds	17,865	-	9,767	8,098	-	Aa2
Corporate Bonds	46,359	9,693	9,742	26,924	-	Aa3
Corporate Bonds	33,498	-	-	25,313	8,185	A1
Corporate Bonds	57,451	37,525	-	19,926	-	A2
Corporate Bonds	120,125	86,066	19,411	9,840	4,808	A3
Corporate Bonds	517,926	502,938	-	6,772	8,216	Baa1
Corporate Bonds	41,224	26,430	6,517	8,277	-	Baa2
Corporate Bonds	15,107	-	-	-	15,107	Baa3
Corporate Bonds	7,915	-	-	-	7,915	Ba1
Corporate Bonds	34,008	-	-	5,303	28,705	Unrated
	<u>\$2,926,899</u>	<u>\$1,888,161</u>	<u>\$305,304</u>	<u>\$575,568</u>	<u>\$157,866</u>	

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

The State has the following recurring fair value measurements as of September 30, 2017:

General Fund:	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Fixed income:				
U.S. Treasury obligations	\$ 1,024,136	\$ -	\$ 1,024,136	\$ -
U.S. Government Agencies	359,125	-	359,125	-
Municipal obligations	498,202	-	498,202	-
Corporate notes	<u>1,045,436</u>	<u>-</u>	<u>1,045,436</u>	<u>-</u>
	2,926,899	-	2,926,899	-
Equity securities:				
U.S. equities	<u>5,581,096</u>	<u>5,581,096</u>	<u>-</u>	<u>-</u>
Total investments at fair value	8,507,995	\$ <u>5,581,096</u>	\$ <u>2,926,899</u>	\$ <u>-</u>
Investments measured at NAV:				
Equity investment in Bank of the FSM	1,162,979			
Investments measured amortized cost:				
Cash management account	<u>309,272</u>			
	\$ <u>9,980,246</u>			

Compact Trust Fund:	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments at fair value level:				
Common trust funds:				
Domestic Equity	\$ 3,960,359	\$ 3,960,359	\$ -	\$ -
International Equity	5,316,799	5,316,799	-	-
Fixed Income	3,272,181	3,272,181	-	-
Private Equity	<u>1,168,080</u>	<u>-</u>	<u>-</u>	<u>1,168,080</u>
Total investments at fair value	13,717,419	\$ <u>12,549,339</u>	\$ <u>-</u>	\$ <u>1,168,080</u>
Investments measured at NAV:				
Hedge Fund	871,218			
Real Estate	1,634,572			
Investments measured at amortized cost:				
Money market funds	<u>41,738</u>			
	\$ <u>16,264,947</u>			

Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. With the exception of investments in U.S. government securities, which are explicitly or implicitly guaranteed by the United States government, all other investments must be rated in accordance with the State's investment policy.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to the transaction, the State will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The State's investments are held and administered by trustees. Based on negotiated trust and custody contracts, all of these investments were held in the State's name by the State's custodial financial institutions at September 30, 2017.

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. GASB Statement No. 40 requires disclosure by issuer and amount of investments in any one issuer that represents five percent (5%) or more of total investments for the State. As of September 30, 2017, the State did not hold an investment in any one issuer that represented more than 5% of the State's total investments.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments. The State does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Trust Fund's fixed income allocation consists of a Mercer Investment Management Opportunistic Fixed Income mutual fund ("MIM OFI") and a Mercer Investment Management Core Fixed Income Fund ("MIM CFI"); the performance of these funds is expected to closely replicate the performance of 50% of the JP Morgan Government Bond Index Emerging Market Global Diversified Index and 50% Bank of America/Merrill Lynch Global High Yield and the Barclays Capital U.S. Aggregate Bond Index, respectively. The bonds held by MIM CFI vary in credit quality with an average overall rating of "Aa3" as rated by Moody's as of September 30, 2017. High yield debt receiving a credit rating below "A" comprises approximately 32.7% of the MIM CFI fixed income portfolio as rated by Moody's at September 30, 2017. At September 30, 2017, the weighted average maturity of the bonds comprising MIM CFI is 9.96 years.

The bonds held by MIM OFI vary in credit quality with an average overall rating of "BB" as rated by Moody's as of September 30, 2017. High yield debt receiving a credit rating below "A" comprises approximately 79.9% of the MIM OFI fixed income portfolio as rated by Moody's at September 30, 2016. At September 30, 2017, the weighted average maturity of the bonds comprising MIM OFI is 8.56 years.

The Trust Fund's investment policy does not require direct investment in fixed maturity securities ("Bonds") as a means of managing its exposure to loss of principal due to increasing interest rates. The Trust Fund's investment policy requires the performance of each investment class to be periodically compared with an associated benchmark. Bonds and bond funds generally decrease in value in response to rising interest rates. Bonds, however, have a fixed date of maturity and do not have exposure to loss of principal from rising interest rates, whereas shares of a common trust fund, ETF, or similar investment vehicle have no maturity date.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(2) Deposits and Investments, Continued

B. Investments, Continued

Primary Government, Continued:

The Trust Fund's exposure to foreign currency risk is derived from its investment in common trust funds, ETFs and REITs that hold investments in securities of foreign issuers and sovereigns. Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. At September 30, 2017, the Trust Fund held approximately \$198,312,000 in securities of foreign issuers held in common trust funds. Of this amount, approximately \$37,201,000 was held in securities whose functional currency is the Euro, \$16,282,000 whose functional currency is the British pound, \$24,087,000 whose functional currency is the Japanese yen, and \$120,742,000 in functional currencies of 35 other countries. Foreign currency exposure data is not available for the Trust Fund's investment in the Hedge Funds and its investments in Global Private Equity Funds, which comprise 12.8% of invested assets at September 30, 2017.

The Trust Fund's investment in hedge funds includes ownership of the Mercer Hedge Fund Series A ("Mercer Hedge Fund") and the Blackstone Partners Offshore Fund Ltd. Mercer Hedge Funds Investors SPC, who incorporated the Mercer Hedge Fund, and the Blackstone Partners Offshore Fund Ltd. are registered under the Mutual Funds Law of the Cayman Islands. The fair value of the Trust Fund's position in the hedge fund pools are equivalent to the value of the pool shares.

The State owns 50,000 shares of the outstanding common stock of the Bank of the Federated States of Micronesia, which engages in commercial banking services in the FSM. An equity investment in the common stock of the Bank of the Federated States of Micronesia (investee) is stated at the net asset value (NAV). The NAV is used as a practical expedient to estimate fair value. The NAV is determined based on the total shareholders' equities reported by the investee.

Discretely Presented Component Units:

Investments of the discretely presented component units are as follows:

Pohnpei Port Authority: Domestic equities	\$ <u>234,790</u>
Investments measured at NAV: Equity investment in Bank of the FSM	\$ <u>234,790</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(3) Receivables

Primary Government:

Receivables as of September 30, 2017, for the primary government's individual major governmental funds, and nonmajor governmental funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Compact Trust</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:					
General	\$ 6,432,175	\$ 3,928	\$ -	\$ -	\$ 6,436,103
Taxes	1,639,908	-	-	-	1,639,908
Due from FSM National Government	-	3,318,606	-	45,497	3,364,103
Other	<u>35,000</u>	<u>366,859</u>	<u>-</u>	<u>-</u>	<u>401,859</u>
	8,107,083	3,689,393	-	45,497	11,841,973
Allowance for uncollectible accounts	<u>(5,759,148)</u>	<u>(453,598)</u>	<u>-</u>	<u>-</u>	<u>(6,212,746)</u>
	<u>\$ 2,347,935</u>	<u>\$ 3,235,795</u>	<u>\$ -</u>	<u>\$ 45,497</u>	<u>\$ 5,629,227</u>

The final settlement of receivables due from the FSM National Government arising from Compact sector grant transactions can be determined only by final action of the FSM National Government in consultation with the grantor agency. Management is of the opinion that collection efforts will be favorable and thus no allowance for uncollectible accounts is considered necessary.

Discretely Presented Component Units:

Receivables as of September 30, 2017, for the discretely presented component units, including applicable allowances for uncollectible accounts, are as follows:

	<u>Pohnpei Utilities Corporation</u>	<u>Pohnpei Port Authority</u>	<u>Pohnpei Transportation Authority</u>	<u>Small Business Guarantee and Finance Corporation</u>	<u>Pohnpei State Housing Authority</u>	<u>Total</u>
General	\$ 7,730,339	\$ 851,775	\$ 853,313	\$ 60,168	\$ -	\$ 9,495,595
Loans	-	-	-	978,152	8,665,518	9,643,670
Other	<u>1,422,142</u>	<u>229,868</u>	<u>-</u>	<u>335,980</u>	<u>64,462</u>	<u>2,052,452</u>
	9,152,481	1,081,643	853,313	1,374,300	8,729,980	21,191,717
Less: allowance for uncollectibles	<u>(6,603,719)</u>	<u>(458,191)</u>	<u>(853,313)</u>	<u>(502,681)</u>	<u>(5,690,537)</u>	<u>(14,108,441)</u>
	<u>\$ 2,548,762</u>	<u>\$ 623,452</u>	<u>\$ -</u>	<u>\$ 871,619</u>	<u>\$ 3,039,443</u>	<u>\$ 7,083,276</u>

Loans receivable consist of the following:

Small Business Guarantee and Finance Corporation

Loans to qualified businesses under Micro Loan and Loan Guarantee Programs with interest at 9% per annum. \$ 978,152

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(3) Receivables, Continued

Discretely Presented Component Units, Continued:

Pohnpei State Housing Authority (PSHA)

PSHA's loan portfolio is derived from three sources: (1) capital contributions of Compact of Free Association Capital Account Funds - Capital Projects by Pohnpei State to fund the Housing Development Loan Fund; (2) Housing Preservation Grant (HPG) loans from a grant extended by the United States Department of Agriculture (USDA) Rural Development through the Housing and Community Facilities Program; and (3) Rural Development loans under the USDA funded Direct Single Family Housing Program. Loans are stated at face value, net of an allowance for loan losses. The allowance represents an amount which, in management's judgment, will be adequate to absorb possible losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. The allowance for loan losses are reported based on certain assumptions pertaining to PSHA's periodic review and evaluation of the loan portfolio, which is subject to change. A summary of loans receivable as of September 30, 2017 are presented below:

Pohnpei State Housing Authority loans	\$ 7,128,922
HPG loans	399,449
USDA Rural Development loans	<u>1,137,147</u>
	<u>\$ 8,665,518</u>

All loans, other than the USDA RD loans, bear interest rate fixed substantially at 4.5% per annum with terms ranging from 3 to 25 years. The USDA RD loans are non-interest bearing.

(4) Interfund Receivables and Payables

Receivables and payables between funds reflected as due to/from other funds in the combined balance sheet at September 30, 2017, are summarized as follows:

Receivable Fund	Payable Fund	Amount
Grants Assistance	General	\$ 1,558,986
Nonmajor governmental funds	General	5,073,988
General	Grants Assistance	1,885,489
General	Nonmajor governmental funds	<u>15,964</u>
		<u>\$ 8,534,427</u>

The amount recorded as due from component units of the primary government does not equal the corresponding due to primary government of the discretely presented component units of \$1,476,090 due to an allowance for doubtful accounts recorded by the General Fund of \$1,476,090.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(5) Capital Assets

Capital asset activities for the year ended September 30, 2017, are as follows:

Primary Government:

	Balance October <u>1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2017</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 24,841,744	\$ -	\$ -	\$ 24,841,744
Machinery, equipment, others	24,994,754	733,336	(552,500)	25,175,590
Infrastructure	<u>53,690,078</u>	<u>-</u>	<u>-</u>	<u>53,690,078</u>
	<u>103,526,576</u>	<u>733,336</u>	<u>(552,500)</u>	<u>103,707,412</u>
Less accumulated depreciation for:				
Buildings	(6,551,142)	(420,658)	-	(6,971,800)
Machinery, equipment, others	(23,810,826)	(626,774)	552,500	(23,885,100)
Infrastructure	<u>(45,297,813)</u>	<u>(1,225,108)</u>	<u>-</u>	<u>(46,522,921)</u>
	<u>(75,659,781)</u>	<u>(2,272,540)</u>	<u>552,500</u>	<u>(77,379,821)</u>
Governmental activities capital assets, net	\$ <u>27,866,795</u>	\$ <u>(1,539,204)</u>	\$ <u>-</u>	\$ <u>26,327,591</u>

Depreciation expense was charged to functions/programs of the primary government's governmental activities as follows:

General government	\$ 177,528
Land and natural resources	4,998
Education	273,432
Health services	208,702
Public safety	243,908
Attorney-general	1,960
Boards and commissions	<u>1,362,012</u>
	<u>\$ 2,272,540</u>

Discretely Presented Component Units:

	Balance October <u>1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	Balance September <u>30, 2017</u>
Depreciable assets:				
Buildings	\$ 17,352,041	\$ 230,720	\$ -	\$ 17,582,761
Utility plant	72,956,469	290,083	-	73,246,552
Machinery, equipment and others	<u>7,474,470</u>	<u>2,158,379</u>	<u>(60,303)</u>	<u>9,572,546</u>
Total capital assets, being depreciated	97,782,980	2,679,182	(60,303)	100,401,859
Less accumulated depreciation	<u>(59,976,466)</u>	<u>(3,100,332)</u>	<u>49,319</u>	<u>(63,027,479)</u>
	<u>37,806,514</u>	<u>(421,150)</u>	<u>(10,984)</u>	<u>37,374,380</u>
Nondepreciable assets:				
Land	2,776,034	-	-	2,776,034
Construction work-in-progress	<u>565,708</u>	<u>411,999</u>	<u>(405,387)</u>	<u>572,320</u>
	<u>3,341,742</u>	<u>411,999</u>	<u>(405,387)</u>	<u>3,348,354</u>
	\$ <u>41,148,256</u>	\$ <u>(9,151)</u>	\$ <u>(416,371)</u>	\$ <u>40,722,734</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(6) Short-term Debt

Discretely Presented Component Units:

Pohnpei Utilities Corporation (PUC)

Line of credit with a bank in the original amount of \$190,000, interest at 5% over the TCD rate (5.25% per annum at September 30, 2017), collateralized by a time certificate of deposit (TCD) with the bank, and expires on September 2018.

Short-term activity for the year ended September 30, 2017, was as follows:

	Balance October 1, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2017</u>
Note payable:				
PUC	\$ <u>549,131</u>	\$ _____ -	\$ _____ -	\$ <u>549,131</u>

(7) Long-Term Obligations

Primary Government:

The State implemented an Early Retirement Scheme (ERS) in which employees holding certain nonessential positions as identified by the State were retired early with a payout of the equivalent of two-years wages. This ERS program is funded by a \$4,200,000 loan from the Asian Development Bank (ADB) (Loan Number 1520 (SF)) through the FSM National Government, non-interest bearing with a service charge of 1% per annum on the amount of the loan withdrawn from the Loan Account. The activities of the ERS Program are recorded in the General Fund.

The ADB loan has a grace period of ten years with the first payment due in February 2008 and the last payment in August 2037. However, pursuant to the terms of the Financing Agreement between the State and the FSM National Government, the State is required to deposit into the ERS Trust account held in the name of the State within the FSM National Government investment portfolio, 100% of the outstanding principal balance by September 30, 2002.

Funds for the repayment of the ADB loan are expected to be derived from the annual appropriations for salaries and wages earmarked for the positions abolished under the Early Retirement Scheme. The Financing Agreement requires the State to continue to appropriate salaries for the abolished positions and deposit the appropriate funds into the ERS Trust Account. These funds had not been deposited to the Trust Account as of September 30, 2002. Of the required \$4,200,000 identified for future debt service payments, \$4,246,466 is deposited in an investment account held jointly with the FSM National Government. That investment account is restricted for the repayment of this debt. As of September 30, 2017, the balance payable on this loan amounted to \$3,413,831.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(7) Long-Term Obligations, Continued

Primary Government, Continued:

The State also entered into an agreement with the FSM National Government to borrow a portion of the proceeds of the FSM National Government Program Loans with the ADB (Loan Number 1873 (SF) and Loan Number 1874 FSM (SF)) for the purpose of promoting private sector development in Pohnpei, with interest at 1% to 1.5% per annum. Principal payments shall be made in 32 equal semi-annual payments with the first payment due on May 15, 2010 and the last payment on November 15, 2025. As of September 30, 2017, the balances payable on these loans amounted to \$264,018 and \$612,364, respectively.

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 229,794	\$ 47,284	\$ 277,078
2019	238,878	44,691	283,569
2020	238,878	41,961	280,839
2021	238,878	39,231	278,109
2022	238,878	36,502	275,380
2023-2027	1,156,877	141,661	1,298,538
2028-2032	1,039,082	80,795	1,119,877
2033-2037	<u>908,948</u>	<u>26,707</u>	<u>935,655</u>
	<u>\$ 4,290,213</u>	<u>\$ 458,832</u>	<u>\$ 4,749,045</u>

Discretely Presented Component Units:

Pohnpei Utilities Corporation (PUC)

Loan payable to the State, facilitated by an ADB loan (Loan Number 1459-FSM) to the FSM National Government; original amount of \$2,413,487. Repayments as allocated by the FSM National Government indicates annual principal payment of \$95,315 through FY2017 and \$98,297 for FY2018 through FY2036, including interest at 1.0% per annum. \$ 1,867,901

Loan payable to United States Department of Agriculture, Rural Utilities Service (RUS), original amount of \$578,000, due in monthly installments of \$2,654 from October 2006 to July 2044. The loan is collateralized by a revenue pledge. The loan bears fixed interest of 4.5% per annum. 493,246

Loan payable to bank, original amount of \$773,122, 5 year term, interest at 9% per annum, collateralized by a diesel power comprehensive generator plant, two Daihatsu model 12D532 engines, building and materials, and existing and future receivables. Monthly principal and interest installments of \$9,794 from September 2008 with unpaid principal due in August 2013, upon which the loan was refinanced for another 5 years maturing on November 30, 2018, with essentially the same terms. 123,778

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(7) Long-Term Obligations, Continued

Pohnpei Utilities Corporation (PUC), Continued

Discretely Presented Component Units, Continued:

Loan payable to the State, facilitated by an ADB loan (Loan Number 2099-FSM) to the FSM National Government, original amount of \$5,624,910. Repayments as allocated by the FSM National Government indicates annual principal payment of \$255,678 through FY2035, with interest payable at 1.0% per annum during the grace period and at 1.5% thereafter. Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants. 4,285,843

Loan payable to the State, facilitated by an ADB loan (Loan Number 2100-FSM) to the FSM National Government, original amount of \$1,445,549, principal due in semi-annual installments of varying amounts as a percentage of total drawings through 2029. Interest is payable at LIBOR plus 0.6% (effective rate of 0.88% at September 30, 2016). Proceeds are used for infrastructure projects to overhaul sewage pumps, extend sewage lines, and for treatment plants. 1,558,998

Loan payable to bank, original amount of \$830,000, interest at 7% per annum and monthly installments of \$7,529 from December 15, 2014 to November 15, 2029. The loan is collateralized by a certain chattel mortgage on the three generators purchased in 2015. 731,635
\$ 9,061,401

Annual debt service requirements to maturity for principal and interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 577,064	\$ 176,466	\$ 753,530
2019	495,109	161,709	656,818
2020	1,101,317	119,289	1,220,606
2021	457,730	101,793	559,523
2022	468,131	95,743	563,874
2023-2027	2,536,822	384,132	2,920,954
2028-2032	2,236,046	214,996	2,451,042
2033-2037	1,002,434	75,649	1,078,083
2038-2042	131,174	28,066	159,240
2043-2044	<u>55,574</u>	<u>2,411</u>	<u>57,985</u>
	\$ <u>9,061,401</u>	\$ <u>1,360,254</u>	\$ <u>10,421,655</u>

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(8) Change in Long-Term Obligations

Primary Government:

Long-term liabilities will be liquidated in the future from governmental funds. During the year ended September 30, 2017, the following changes occurred in liabilities reported as part of the primary government's long-term liabilities in the statement of net position:

	Balance October <u>1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2017</u>	Due Within <u>One Year</u>
Loans payable:					
ADB loans:					
Loan 1520	\$ 3,459,587	\$ -	\$ (45,756)	\$ 3,413,831	\$ 170,703
Loan 1873	293,572	-	(29,554)	264,018	21,978
Loan 1874	<u>629,987</u>	<u>-</u>	<u>(17,623)</u>	<u>612,364</u>	<u>37,113</u>
	4,383,146	-	(92,933)	4,290,213	229,794
Other:					
Compensated absences	782,293	438,516	(839,042)	381,767	381,767
Claims and judgments	<u>210,968</u>	<u>-</u>	<u>-</u>	<u>210,968</u>	<u>-</u>
	<u>\$ 5,376,407</u>	<u>\$ 438,516</u>	<u>\$ (971,975)</u>	<u>\$ 4,882,948</u>	<u>\$ 611,561</u>

When the ADB extends credit to a particular country, the loan is booked in Special Drawing Rights (SDRs) but the actual loan is delivered in the currency of the borrower, at the current exchange rate between the currency and the SDR. The value of the SDR is subject to periodic review by the International Monetary Fund, which may result in the recognition of a foreign exchange gain or loss. During the year ended September 30, 2017, the State recognized a foreign exchange loss of \$39,753 associated with valuation of the SDR, which is presented as a special item in the accompanying financial statements, and which results in a reduction in ADB loans payable.

Discretely Presented Component Units:

During the year ended September 30, 2017, the following changes occurred in long-term obligations of the discretely presented component units:

	Balance October 1, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance September <u>30, 2017</u>	Due Within <u>One Year</u>
Loans payable:					
Pohnpei Utilities Corporation	\$ <u>9,756,030</u>	<u>\$ -</u>	<u>\$ (694,629)</u>	\$ <u>9,061,401</u>	\$ <u>577,064</u>

(9) Contingencies and Commitments

Sick Leave

It is the policy of the State to record expenditures for sick leave when leave is actually taken. Sick leave is compensated time for absence during working hours arising from employee illness or injury.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(9) Contingencies and Commitments, Continued

Encumbrances

The State utilizes encumbrance accounting to identify fund obligations. Encumbrances represent commitments related to unperformed contracts for goods. At September 30, 2017, the State has significant encumbrances summarized as follows:

	<u>General</u>	<u>Grants Assistance</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Encumbrances	\$ <u>231,817</u>	\$ <u>2,513,260</u>	\$ <u>425,349</u>	\$ <u>3,170,426</u>

Federal Grants

The State participates in a number of federally assisted grant programs and other various U.S. Department of the Interior grants. These programs are subject to financial and compliance audits to ascertain if Federal laws and guidelines have been followed. Cumulative questioned costs have been set forth in the State's Single Audit Report for the year ended September 30, 2017. In addition, the State is considered to have responsibility for any questioned costs that may result from Single Audits of subgrantees who have not satisfied the audit requirements of the Uniform Guidance. The ultimate disposition of these questioned costs can be determined only by final action of the respective grantor agencies. Therefore, no provision for any liability that may result upon resolution of this matter has been made in the accompanying financial statements.

Pursuant to Title I, Section 105 of United States Public Law 99-239, the Government of the Federated States of Micronesia (FSM) (which includes the State) is no longer liable for debts to U.S. federal agencies arising prior to the date of the implementation of the Compact of Free Association. This matter has not yet been officially resolved with the U.S. Government.

Loan Guarantees

As discussed in Note 1K, if after exhaustive efforts between PSHA and the United State of Department of Agriculture (USDA) Rural Development (parties to the MOU) have failed to collect from the defaulted borrowers, the State may be ultimately responsible for various USDA Rural Development loans. On March 28, 2007, the State was notified that various loans in the program may be in default. No provision for any liability that may result from this matter has been provided for within the accompanying financial statements.

PSHA's management is of the opinion that the primary government will become ultimately liable for such defaulted liabilities to USDA Rural Development. Therefore, such loans and related liability are not recorded by PSHA in the accompanying financial statements. The State is of the opinion that these loans have not been communicated timely in accordance with the underlying agreement and therefore, does not believe that it is liable for the balance.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(9) Contingencies and Commitments, Continued

Litigation

The State is party to several legal proceedings arising from governmental operations. Claims are filed with the State's Attorney General. Approved claims are usually paid under general appropriations to the affected government agency. The State Attorney General is of the opinion that the probable outcome of suits existing at September 30, 2017, is not predictable but could have a material impact on the accompanying financial statements. Such impact has currently been estimated to approximate \$210,968.

Insurance Coverage

The State does not maintain insurance coverage for a significant amount of capital assets. In the event of a catastrophe, the State may be self-insured to a material extent.

Other

The State Legislature has authorized various Compact Infrastructure and Infrastructure Maintenance projects. However, the State Legislature has required that additional approvals be provided by that body prior to these projects being expended. As a result, no continuing appropriation has been recorded or will be recorded for these authorizations until such time as the additional requirements have been satisfied. State law mandates that 30% of fishing fines be shared with applicable municipalities. Given the lack of certain legal clarifications, no specific dollar amount can be determined to be recorded as either a continuing appropriation or as a liability due to the municipalities.

(10) Self-Insurance Fund - Component Units

In accordance with Section 2(5) of State Law 3L-41-93, an amendment was made to the original enabling legislation for Pohnpei Utilities Corporation (PUC) establishing a self-insurance fund to defray costs of any unforeseen accidents or disasters. The funds are accumulated in a restricted self-insurance fund, held by a trustee, in the name of PUC. No other insurance is maintained by PUC.

Pohnpei Port Authority (PPA) purchase insurance to cover workmen's compensation and life insurance risks but is substantially self-insured for all other risks. Management of PPA is of the opinion that no material losses have been sustained as a result of this practice.

Pohnpei Transportation Authority (PTA) does not purchase commercial insurance covering potential risks. Management of PTA represents that no material losses have been sustained as a result of this practice during the last three years.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(11) Fund Balance

Classifications of fund balances comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following table enumerates the fund balance classifications:

	<u>General Fund</u>	<u>Grants Assistance Fund</u>	<u>Compact Trust Fund</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Non-spendable:					
General government	\$ 100,334	\$ -	-	-	\$ 100,334
Economic development	-	-	-	3,402	3,402
Pacific Islands Development Bank	1,000,000	-	-	-	1,000,000
Bank of the FSM	1,162,979	-	-	-	1,162,979
Permanent fund principal	-	-	16,264,947	-	16,264,947
Restricted for:					
General government	-	131,655	-	-	131,655
Debt service	4,246,466	-	-	-	4,246,466
USDA development loans	345,702	-	-	-	345,702
Education	-	14,609	-	-	14,609
Health services	518,484	4,787	-	-	523,271
Infrastructure maintenance	-	18,969	-	-	18,969
Committed:					
General government	148,716	-	-	1,240,802	1,389,518
Economic development	-	-	-	620,144	620,144
Health services	-	-	-	2,820,746	2,820,746
Assigned	231,817	-	-	-	231,817
Unassigned	<u>3,648,631</u>	<u>-</u>	<u>-</u>	<u>(116,869)</u>	<u>3,531,762</u>
	<u>\$ 11,403,129</u>	<u>\$ 170,020</u>	<u>\$ 16,264,947</u>	<u>\$ 4,568,225</u>	<u>\$ 32,406,321</u>

(12) Budgetary Compliance

For the year ended September 30, 2017, over-expenditures exceeded appropriations within the General Fund for the following:

Debt service	\$ 132,686
Debt guarantee payments	\$ 125,071
Election Commission	\$ 1,087
Pohnpei Housing Authority	\$ 1,606
Public Safety	\$ 83,792
USDA Rural Development	\$ 1,469
Tourism	\$ 6,010
Grants to local governments	\$ 111,042

These over-expenditures of the General Fund have not been funded by legislative authorization.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Financial Statements
September 30, 2017

(13) FSM Development Bank Loan Funds

Compact Capital Account funds in an aggregate amount of \$1.7 million were transferred to the control of the FSM Development Bank (FSMDB) (a component unit of the FSM National Government) to be loaned out to borrowers from the State mainly for economic development projects. The loan fund is administered by FSMDB in a Trust capacity. All loan decisions are made by management of the State. These loans are not controlled by the State and are not currently recorded in the accompanying financial statements. As of December 31, 2017 (FSMDB fiscal year end), the outstanding fund balance aggregated \$0.

(14) Asian Development Bank (ADB) Loan Guarantee

The State has guaranteed certain loan obligations of Pohnpei Utilities Corporation (PUC), which are subsidiary loans of the FSM National Government payable to the ADB. The loans require annual principal and interest payments through September 30, 2036. As a result of prior default by PUC in remitting loan payments to the FSM National Government, the FSM National Government has withheld certain revenue shares owed to the State. During the year ended September 30, 2017, the FSM National Government withheld revenue shares in the amount of \$125,071 associated with this guarantee. The State has not made the determination whether it is more likely than not that the State would be required to pay the remaining portion of PUC's debt service payments based on this guarantee. Accordingly, the State has not recognized a liability for the discounted present value of future outflows expected to be incurred as a result. As at September 30, 2017, PUC has recorded long-term debt associated with ADB loans of \$7,712,742.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**REQUIRED SUPPLEMENTARY INFORMATION-
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS**

YEAR ENDED SEPTEMBER 30, 2017

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		Actual - Budgetary	Variance with Final Budget -
	<u>Original</u>	<u>Final</u>	Basis (see Note 1)	
Revenues:				
FSM revenue sharing	\$ 6,460,000	\$ 6,460,000	\$ 8,156,955	\$ 1,696,955
State taxes	2,861,000	2,861,000	2,697,746	(163,254)
Fees and charges	335,000	335,000	424,616	89,616
Net change in the fair value of investments	608,142	608,142	814,772	206,630
Other	<u>15,000</u>	<u>15,000</u>	<u>2,758,963</u>	<u>2,743,963</u>
Total revenues	<u>10,279,142</u>	<u>10,279,142</u>	<u>14,853,052</u>	<u>4,573,910</u>
Expenditures:				
Current:				
General government	3,585,819	3,630,539	3,333,155	297,384
Department of Land and Natural Resources	498,349	502,349	440,419	61,930
Department of Education	8,281	85,727	84,124	1,603
Department of Health Services	49,600	56,331	51,553	4,778
Department of Public Safety	1,348,634	1,389,391	1,286,291	103,100
Office of the Attorney-General	379,119	402,844	362,916	39,928
Department of Public Works	286,239	284,419	197,162	87,257
Boards, commissions and other	1,255,011	1,328,211	1,111,647	216,564
Payments to non-governmental agencies	406,528	660,849	773,360	(112,511)
Grants to local governments	2,422,301	2,422,301	2,428,311	(6,010)
Debt service	<u>-</u>	<u>-</u>	<u>257,757</u>	<u>(257,757)</u>
Total expenditures	<u>10,239,881</u>	<u>10,762,961</u>	<u>10,326,695</u>	<u>436,266</u>
Net change in fund balance	39,261	(483,819)	4,526,357	5,010,176
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes				
	<u>231,817</u>	<u>231,817</u>	<u>231,817</u>	<u>-</u>
	271,078	(252,002)	4,758,174	5,010,176
Fund balance at the beginning of the year	<u>6,644,955</u>	<u>6,644,955</u>	<u>6,644,955</u>	<u>-</u>
Fund balance at the end of the year	<u>\$ 6,916,033</u>	<u>\$ 6,392,953</u>	<u>\$ 11,403,129</u>	<u>\$ 5,010,176</u>

See accompanying notes to required supplementary information - budgetary reporting.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Required Supplementary Information – Budgetary Reporting
September 30, 2017

(1) Budgetary Information

The Governor presents to the Pohnpei State Legislature, prior to September 30, proposed budget estimates for the fiscal year commencing October 1. The budget estimates include the overall and total proposed expenditures of the State and the means of financing those expenditures. The Pohnpei State Legislature reviews and approves these estimates making changes, as it deems appropriate. The Appropriation Committee of the Pohnpei State Legislature, during the regular session of the Pohnpei State Legislature, holds public hearings at which time Departments and Offices are required to justify their budget estimates. During the regular session of the Pohnpei State Legislature, an appropriation bill, as required by the Constitution, is introduced and budget estimates are then legally enacted by the Pohnpei State Legislature.

Formal budget integration is employed as a management control device during the year for all funds. The Pohnpei State Legislature has the authority to reprogram budgeted estimates in accordance with the Constitution. All annual appropriations lapse at the end of the fiscal year unless otherwise specified by law. Supplemental appropriations may occur throughout the year. Unexpended encumbrances at each fiscal year end are carried forward until they are expended or canceled without further legislative action. The State does not establish budgets for the operations of its other governmental funds.

Encumbrance accounting is employed in governmental funds. For budgetary purposes, the encumbrances (i.e., purchase orders, contracts) are considered expenditures when incurred. For GAAP reporting purposes, encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent fiscal year.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

OTHER SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2017

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Combining Schedule of Expenditures by Account
Governmental Funds
Year Ended September 30, 2017

	General	Special Revenue Grants Assistance	Permanent Compact Trust	Other Governmental Funds	Total
Expenditures:					
Salaries and wages:					
Regular	\$ 4,298,677	\$ 10,279,293	\$ -	\$ 67,524	\$ 14,645,494
Overtime	89,572	351,211	-	-	440,783
Fringe benefits	923,512	2,288,717	-	13,388	3,225,617
Travel and transportation	234,516	425,108	-	-	659,624
Books and instructional materials	-	647,385	-	-	647,385
Communications	109,982	163,731	-	102	273,815
Dues, membership, and subscriptions	13,265	4,205	-	-	17,470
Food stuffs	96,120	499,244	-	-	595,364
Freight and port charges	341	21,834	-	4,949	27,124
Non-capitalized equipment	53,634	142,135	-	2,647	198,416
Capital outlays	62,483	2,218,618	-	3,550	2,284,651
Office supplies and materials	202,007	1,152,786	-	60,074	1,414,867
POL	108,647	206,533	-	487	315,667
Printing and reproduction	31,680	100,492	-	885	133,057
Rental services	11,595	98,238	-	-	109,833
Repairs and maintenance	29,590	61,663	-	370	91,623
Utilities	268,213	709,117	-	34,552	1,011,882
Miscellaneous goods and services	(60,837)	69,870	-	302,328	311,361
Subsidies and contributions	498,890	-	-	-	498,890
Medical referrals	-	26,285	-	-	26,285
Medical supplies	-	1,342,675	-	207,225	1,549,900
Contractual services	110,686	1,654,992	-	774,812	2,540,490
Housing allowance	45,000	176,781	-	-	221,781
Non-payroll compensation	461	167,913	-	-	168,374
Court settlements	7,500	-	-	-	7,500
Scholarships and allowances	-	253,159	-	-	253,159
Insurance	26,989	-	-	-	26,989
Official allowance	111,890	-	-	-	111,890
Meeting allowance	3,270	46,136	-	4,740	54,146
Principal repayment	132,686	-	-	-	132,686
Payments to municipalities	2,428,311	-	-	-	2,428,311
Debt guarantee payments	250,142	-	-	-	250,142
Bank charges	6,341	787	-	100	7,228
Miscellaneous	(285)	-	-	-	(285)
	<u>\$ 10,094,878</u>	<u>\$ 23,108,908</u>	<u>\$ -</u>	<u>\$ 1,477,733</u>	<u>\$ 34,681,519</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance
General Fund
Year Ended September 30, 2017
(with comparative totals for the year ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Revenues:		
FSM revenue sharing:		
Gross revenue taxes	\$ 2,177,521	\$ 2,130,413
Import taxes	3,218,622	2,042,391
Income taxes	2,447,587	2,307,659
Other taxes	313,225	228,819
	<u>8,156,955</u>	<u>6,709,282</u>
State taxes:		
Sales tax	2,602,994	2,495,521
Hotel tax	94,752	88,180
	<u>2,697,746</u>	<u>2,583,701</u>
Fees and charges:		
Licenses and fees:	424,616	296,652
Net change in the fair value of investments	814,772	670,198
Other revenues	2,758,963	5,743
Total revenues	<u>14,853,052</u>	<u>10,265,576</u>
Expenditures:		
Current:		
General government:		
Governor and staff	446,330	437,910
Department of Treasury and Administration	418,768	1,080,199
Office of Pohnpei Public Auditor	17,267	13,154
Judiciary Branch	677,564	675,878
Legislative Branch	1,653,091	1,690,179
	<u>3,213,020</u>	<u>3,897,320</u>
Department of Land and Natural Resources:		
Office of the Director	83,871	93,259
Division of Public Land	13,915	14,040
Division of Surveying and Mapping	178,686	186,988
Division of Forestry and Marine Conservation	64,051	73,753
Division of Historic Preservation	42,969	49,833
Division of Parks and Recreation	45,608	67,375
	<u>429,100</u>	<u>485,248</u>
Department of Education:		
Division of Primary Education	83,161	133,039
Department of Health:		
Medical services	51,553	46,469
Department of Public Safety:		
Office of the Director	84,996	64,149
Search and Rescue	3,999	3,752
Fish and Wildlife	101,804	110,138
Police Commission	24,436	16,848
Division of Fire & Emergency	9,320	-
Division of Police and Security	783,628	828,435
Division of Correction and Rehabilitation	228,768	241,508
	<u>1,236,951</u>	<u>1,264,830</u>
Office of the Attorney-General	357,838	307,496
Public Works	181,439	252,937

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function,
and Changes in Fund Balance, Continued
General Fund
Year Ended September 30, 2017
(with comparative totals for the year ended September 30, 2016)

	<u>2017</u>	<u>2016</u>
Expenditures, continued:		
Current:		
Boards, commissions and other:		
Office of Economic Affairs	301,665	260,459
Office of Social Affairs	59,250	111,994
Election Commissioner's Office	50,582	213,220
Pohnpei Public Broadcasting Corporation	115,759	127,398
Foreign Investment Board	-	-
Pohnpei Housing Authority	116,463	97,813
Sports and Recreation	126,129	115,520
Office of Fisheries and Aquaculture	301,134	312,817
Environmental Protection Agency	14,622	41,783
	<u>1,085,604</u>	<u>1,281,004</u>
Payments to non-governmental agencies:		
Small Business Guarantee and Finance Corporation	379,980	44,000
Pohnpei Public Library	60,108	60,108
Micronesian Legal Services Corporation	54,445	54,445
U.S.D.A. Rural Development	89,829	86,507
Pohnpei Visitors' Bureau	79,756	54,635
Sports facilities	102,444	-
Other	3,582	645
	<u>770,144</u>	<u>300,340</u>
Grants to local governments	<u>2,428,311</u>	<u>2,307,531</u>
Debt service:		
Principal repayment	132,686	133,659
Debt guarantee payments	125,071	504,120
	<u>257,757</u>	<u>637,779</u>
Total expenditures	<u>10,094,878</u>	<u>10,913,993</u>
Net change in fund balance	4,758,174	(648,417)
Fund balance at the beginning of the year	<u>6,644,955</u>	<u>7,293,372</u>
Fund balance at the end of the year	<u>\$ 11,403,129</u>	<u>\$ 6,644,955</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Changes in Fund Balance
Budget and Actual - General Fund
Year Ended September 30, 2017

	Budgeted Amounts		Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
FSM revenue sharing	\$ 6,460,000	\$ 6,460,000	\$ 8,156,955	\$ 1,696,955
State taxes:				
Sales tax	2,775,000	2,775,000	2,602,994	(172,006)
Hotel tax	86,000	86,000	94,752	8,752
	<u>2,861,000</u>	<u>2,861,000</u>	<u>2,697,746</u>	<u>(163,254)</u>
Fees and charges:				
Licenses and fees	335,000	335,000	424,616	89,616
Net change in the fair value of investments	608,142	608,142	814,772	206,630
Other	15,000	15,000	2,758,963	2,743,963
Total revenues	<u>10,279,142</u>	<u>10,279,142</u>	<u>14,853,052</u>	<u>4,573,910</u>
Expenditures:				
Current:				
General government:				
Governor and staff	480,713	490,933	486,685	4,248
Department of Treasury and Administration	541,323	544,323	437,443	106,880
Office of the Pohnpei Public Auditor	12,945	31,945	17,447	14,498
Judiciary Branch	712,286	724,786	694,189	30,597
Legislative Branch	1,838,552	1,838,552	1,697,391	141,161
	<u>3,585,819</u>	<u>3,630,539</u>	<u>3,333,155</u>	<u>297,384</u>
Department of Land and Natural Resources:				
Office of the Director	85,349	89,349	87,178	2,171
Division of Public Land	17,058	17,058	13,915	3,143
Division of Surveying and Mapping	191,516	191,516	178,232	13,284
Division of Forestry and Marine Conservation	75,188	75,188	70,288	4,900
Division of Historic Preservation	70,477	70,477	43,210	27,267
Division of Parks and Recreation	58,761	58,761	47,596	11,165
	<u>498,349</u>	<u>502,349</u>	<u>440,419</u>	<u>61,930</u>
Department of Education:				
Division of Primary Education	8,281	85,727	84,124	1,603
Department of Health Services:				
Division of Medical Services	49,600	56,331	51,553	4,778
Department of Public Safety:				
Office of the Director	135,084	132,335	85,606	46,729
Search and Rescue	4,291	291	4,290	(3,999)
Police Commission	24,434	24,434	24,775	(341)
Division of Police and Security	821,479	721,399	799,210	(77,811)
Division of Correction and Rehabilitation	235,680	235,680	229,171	6,509
Division of Fire & Emergency	-	146,648	12,994	133,654
Fish and Wildlife	127,666	128,604	130,245	(1,641)
	<u>1,348,634</u>	<u>1,389,391</u>	<u>1,286,291</u>	<u>103,100</u>
Office of the Attorney-General	379,119	402,844	362,916	39,928
Department of Public Works:				
Office of Transportation and Infrastructure	286,239	284,419	197,162	87,257

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Statement of Revenues, Expenditures by Function and Changes in Fund Balance, Continued
Budget and Actual - General Fund
Year Ended September 30, 2017

	Budgeted Amounts		Actual - Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final -		
Expenditures, continued:				
Boards, commissions and other:				
Office of Economic Affairs	299,891	400,978	304,984	95,994
Office of Social Affairs	100,199	100,199	59,683	40,516
Election Commissioner's Office	50,163	50,163	51,250	(1,087)
Pohnpei Public Broadcasting Corporation	128,005	128,005	115,938	12,067
Foreign Investment Board	2,186	2,186	2,186	-
Pohnpei Housing Authority	116,091	116,091	117,697	(1,606)
Sports and Recreation	136,363	136,363	126,645	9,718
Office of Fisheries and Aquaculture	398,909	371,022	315,590	55,432
Environmental Protection Agency	23,204	23,204	17,674	5,530
	1,255,011	1,328,211	1,111,647	216,564
Payments to non-governmental agencies:				
Small Business Guarantee and Finance Corporation	44,000	379,980	379,980	-
Pohnpei Public Library	60,108	60,108	60,108	-
Micronesian Legal Services Corporation	54,445	54,445	54,445	-
U.S.D.A. Rural Development	88,360	88,360	89,829	(1,469)
Pohnpei Visitors Bureau	159,615	77,956	188,998	(111,042)
	406,528	660,849	773,360	(112,511)
Grants to local governments	2,422,301	2,422,301	2,428,311	(6,010)
Debt service:				
Principal repayment	-	-	132,686	(132,686)
Debt guarantee payments	-	-	125,071	(125,071)
	-	-	257,757	(257,757)
Total expenditures	10,239,881	10,762,961	10,326,695	436,266
Net change in fund balance	39,261	(483,819)	4,526,357	5,010,176
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes	231,817	231,817	231,817	-
	271,078	(252,002)	4,758,174	5,010,176
Fund balance at the beginning of the year	6,644,955	6,644,955	6,644,955	-
Fund balance at the end of the year	<u>\$ 6,916,033</u>	<u>\$ 6,392,953</u>	<u>\$ 11,403,129</u>	<u>\$ 5,010,176</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

Combining Balance Sheet
September 30, 2017

	26	27	29	32	33	34	35	36	37	38	18	87	Total
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	
<u>ASSETS</u>													
Due from FSM National Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,497	\$ -	\$ 45,497
Due from other funds	254,704	-	316,538	310,725	882,790	1,484,467	12,323	1,493,215	74,821	-	211,749	32,656	5,073,988
Advances	-	-	3,402	-	-	-	-	-	-	-	1,120	-	4,522
Total assets	<u>\$ 254,704</u>	<u>\$ -</u>	<u>\$ 319,940</u>	<u>\$ 310,725</u>	<u>\$ 882,790</u>	<u>\$ 1,484,467</u>	<u>\$ 12,323</u>	<u>\$ 1,493,215</u>	<u>\$ 74,821</u>	<u>\$ -</u>	<u>\$ 258,366</u>	<u>\$ 32,656</u>	<u>\$ 5,124,007</u>
<u>LIABILITIES AND FUND BALANCES</u>													
Liabilities:													
Accounts payable	\$ -	\$ 3,593	\$ 5,877	\$ 1,243	\$ 200	\$ 157,208	\$ 500	\$ -	\$ 9,097	\$ -	\$ -	\$ 513	\$ 178,231
Other liabilities and accruals	-	-	-	-	-	-	-	-	2,863	-	-	3,046	5,909
Unearned revenues	-	-	-	-	-	-	-	-	-	-	355,678	-	355,678
Due to other funds	-	13,617	-	-	-	-	-	-	-	2,347	-	-	15,964
Total liabilities	<u>-</u>	<u>17,210</u>	<u>5,877</u>	<u>1,243</u>	<u>200</u>	<u>157,208</u>	<u>500</u>	<u>-</u>	<u>11,960</u>	<u>2,347</u>	<u>355,678</u>	<u>3,559</u>	<u>555,782</u>
Fund balances (deficit):													
Non-spendable	-	-	3,402	-	-	-	-	-	-	-	-	-	3,402
Committed	254,704	-	310,661	309,482	882,590	1,327,259	11,823	1,493,215	62,861	-	-	29,097	4,681,692
Unassigned	-	(17,210)	-	-	-	-	-	-	-	(2,347)	(97,312)	-	(116,869)
Total fund balances (deficit)	<u>254,704</u>	<u>(17,210)</u>	<u>314,063</u>	<u>309,482</u>	<u>882,590</u>	<u>1,327,259</u>	<u>11,823</u>	<u>1,493,215</u>	<u>62,861</u>	<u>(2,347)</u>	<u>(97,312)</u>	<u>29,097</u>	<u>4,568,225</u>
Total liabilities and fund balances	<u>\$ 254,704</u>	<u>\$ -</u>	<u>\$ 319,940</u>	<u>\$ 310,725</u>	<u>\$ 882,790</u>	<u>\$ 1,484,467</u>	<u>\$ 12,323</u>	<u>\$ 1,493,215</u>	<u>\$ 74,821</u>	<u>\$ -</u>	<u>\$ 258,366</u>	<u>\$ 32,656</u>	<u>\$ 5,124,007</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures By Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2017

	26	27	29	32	33	34	35	36	37	38	18	87	Total
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	Total
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 239,889	\$ -	\$ 239,889
Excise tax	-	-	-	-	367,969	-	-	-	-	-	-	-	367,969
Fees and charges	42,793	31,226	216,448	451,345	76,357	1,104,149	25,942	161,499	93,564	-	-	65,806	2,269,129
Total revenues	<u>42,793</u>	<u>31,226</u>	<u>216,448</u>	<u>451,345</u>	<u>444,326</u>	<u>1,104,149</u>	<u>25,942</u>	<u>161,499</u>	<u>93,564</u>	<u>-</u>	<u>239,889</u>	<u>65,806</u>	<u>2,876,987</u>
Expenditures by function:													
Current:													
General government	-	28,827	-	299,338	529,942	-	22,531	-	60,452	-	239,889	89,492	1,270,471
Health services	-	-	-	-	-	207,262	-	-	-	-	-	-	207,262
Total expenditures	<u>-</u>	<u>28,827</u>	<u>-</u>	<u>299,338</u>	<u>529,942</u>	<u>207,262</u>	<u>22,531</u>	<u>-</u>	<u>60,452</u>	<u>-</u>	<u>239,889</u>	<u>89,492</u>	<u>1,477,733</u>
Net change in fund balances (deficit)	42,793	2,399	216,448	152,007	(85,616)	896,887	3,411	161,499	33,112	-	-	(23,686)	1,399,254
Fund balances (deficit) at the beginning of the year	<u>211,911</u>	<u>(19,609)</u>	<u>97,615</u>	<u>157,475</u>	<u>968,206</u>	<u>430,372</u>	<u>8,412</u>	<u>1,331,716</u>	<u>29,749</u>	<u>(2,347)</u>	<u>(97,312)</u>	<u>52,783</u>	<u>3,168,971</u>
Fund balances (deficit) at the end of the year	<u>\$ 254,704</u>	<u>\$ (17,210)</u>	<u>\$ 314,063</u>	<u>\$ 309,482</u>	<u>\$ 882,590</u>	<u>\$ 1,327,259</u>	<u>\$ 11,823</u>	<u>\$ 1,493,215</u>	<u>\$ 62,861</u>	<u>\$ (2,347)</u>	<u>\$ (97,312)</u>	<u>\$ 29,097</u>	<u>\$ 4,568,225</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

**NONMAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS**

Combining Statement of Revenues, Expenditures By Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2017

	26	27	29	32	33	34	35	36	37	38	18	87	Total
	Alien Registration Revolving	Pohnpei State Farmers' Revolving	Fisheries Enforcement and Development	Recycling Revolving	Paved Road Maintenance	Medical Supplies Revolving	Public Broadcasting Corporation	Health Care Premium	Department of Public Safety Fees	Environmental Quality	Infrastructure Maintenance	Public Lands Trust	
Revenues:													
Compact funding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 239,889	\$ -	\$ 239,889
Excise tax	-	-	-	-	367,969	-	-	-	-	-	-	-	367,969.00
Fees and charges	42,793	31,226	216,448	451,345	76,357	1,104,149	25,942	161,499	93,564	-	-	65,806	2,269,129
Total revenues	42,793	31,226	216,448	451,345	444,326	1,104,149	25,942	161,499	93,564	-	239,889	65,806	2,876,987
Expenditures by account:													
Salaries and wages:													
Regular	-	-	-	-	-	-	-	-	-	-	-	67,524	67,524
Fringe benefits	-	-	-	-	-	-	-	-	-	-	-	13,388	13,388
Communications	-	102	-	-	-	-	-	-	-	-	-	-	102
Freight and port charges	-	154	-	4,795	-	-	-	-	-	-	-	-	4,949
Non-capitalized equipment	-	2,265	-	-	-	-	319	-	63	-	-	-	2,647
Capital outlay	-	-	-	-	-	-	2,840	-	710	-	-	-	3,550
Office supplies and materials	-	12,488	-	2,362	-	-	20	-	40,835	-	19	4,350	60,074
POL	-	487	-	-	-	-	-	-	-	-	-	-	487
Printing and reproduction	-	-	-	61	-	-	-	-	824	-	-	-	885
Repairs and maintenance	-	-	-	-	-	-	-	-	-	-	-	370	370
Utilities	-	3,060	-	-	-	-	13,472	-	18,020	-	-	-	34,552
Miscellaneous goods and services	-	10,171	-	292,120	-	37	-	-	-	-	-	-	302,328
Medical supplies	-	-	-	-	-	207,225	-	-	-	-	-	-	207,225
Contractual services	-	-	-	-	529,942	-	5,000	-	-	-	239,870	-	774,812
Bank charges	-	100	-	-	-	-	-	-	-	-	-	-	100
Meeting allowance	-	-	-	-	-	-	880	-	-	-	-	3,860	4,740
Total expenditures	-	28,827	-	299,338	529,942	207,262	22,531	-	60,452	-	239,889	89,492	1,477,733
Net change in fund balances (deficit)	42,793	2,399	216,448	152,007	(85,616)	896,887	3,411	161,499	33,112	-	-	(23,686)	1,399,254
Fund balances (deficit) at the beginning of the year	211,911	(19,609)	97,615	157,475	968,206	430,372	8,412	1,331,716	29,749	(2,347)	(97,312)	52,783	3,168,971
Fund balances (deficit) at the end of the year	\$ 254,704	\$ (17,210)	\$ 314,063	\$ 309,482	\$ 882,590	\$ 1,327,259	\$ 11,823	\$ 1,493,215	\$ 62,861	\$ (2,347)	\$ (97,312)	\$ 29,097	\$ 4,568,225

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

**Combining Balance Sheet
September 30, 2017**

	10	11	12	13	14	15	16	19	6	7	20	23	25	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Total
ASSETS														
Receivables:														
Due from FSM National Government	\$ 897,326	\$ 407,684	\$ -	\$ -	\$ 19,751	\$ -	\$ -	\$ 691,227	\$ -	\$ -	\$ 549,800	\$ -	\$ 657,329	\$ 3,223,117
Other	-	-	-	-	-	-	-	-	-	-	-	8,750	3,928	12,678
Due from other funds	-	849,477	14,610	117,490	6,951	235,101	162,396	-	44,188	35,588	-	93,185	-	1,558,986
Advances	15,203	11,103	688	1,760	41,347	16,210	-	(560)	-	-	29,410	4,814	5,141	125,116
Restricted cash	-	7,700	-	-	-	-	-	-	-	-	-	-	-	7,700
	<u>\$ 912,529</u>	<u>\$ 1,275,964</u>	<u>\$ 15,298</u>	<u>\$ 119,250</u>	<u>\$ 68,049</u>	<u>\$ 251,311</u>	<u>\$ 162,396</u>	<u>\$ 690,667</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ 579,210</u>	<u>\$ 106,749</u>	<u>\$ 666,398</u>	<u>\$ 4,927,597</u>
LIABILITIES AND FUND BALANCES (DEFICIT)														
Liabilities:														
Accounts payable	\$ 311,319	\$ 696,084	\$ 145	\$ 5,320	\$ 10,301	\$ 140,645	\$ 8,353	\$ 5,916	\$ -	\$ -	\$ 134,973	\$ 45,363	\$ 21,155	\$ 1,379,574
Other liabilities and accruals	223,744	115,690	(179)	-	17,575	47,023	16,540	13,256	-	-	66,747	269	3,077	503,742
Unearned revenues	61,617	459,403	15,332	113,393	38,989	56,150	137,503	56,120	-	-	39,306	10,959	-	988,772
Due to other funds	308,733	-	-	-	-	-	-	596,406	-	-	338,184	-	642,166	1,885,489
Total liabilities	<u>905,413</u>	<u>1,271,177</u>	<u>15,298</u>	<u>118,713</u>	<u>66,865</u>	<u>243,818</u>	<u>162,396</u>	<u>671,698</u>	<u>-</u>	<u>-</u>	<u>579,210</u>	<u>56,591</u>	<u>666,398</u>	<u>4,757,577</u>
Fund balances:														
Restricted	7,116	4,787	-	537	1,184	7,493	-	18,969	44,188	35,588	-	50,158	-	170,020
Total fund balances	<u>7,116</u>	<u>4,787</u>	<u>-</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>-</u>	<u>18,969</u>	<u>44,188</u>	<u>35,588</u>	<u>-</u>	<u>50,158</u>	<u>-</u>	<u>170,020</u>
Total liabilities and fund balances	<u>\$ 912,529</u>	<u>\$ 1,275,964</u>	<u>\$ 15,298</u>	<u>\$ 119,250</u>	<u>\$ 68,049</u>	<u>\$ 251,311</u>	<u>\$ 162,396</u>	<u>\$ 690,667</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ 579,210</u>	<u>\$ 106,749</u>	<u>\$ 666,398</u>	<u>\$ 4,927,597</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

Combining Statement of Revenues, Expenditures by Function,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2017

	10	11	12	13	14	15	16	19	6	7	20	23	25	
	Section 211(a)(1) Education Sector	Section 211(a)(2) Health Sector	Section 211(a)(5) Environment	Section 211(a)(3) Private Sector Development	Section 211(a)(4) Capacity Building	Section 211(a)(1) Supplemental Education	Enhanced Reporting Accountability	Infrastructure Maintenance	Section 221(b) Special Block Grant	Compact I Other Grants	U.S. Federal Grants	Non-U.S. Grants	CFSM Grants	Total
Revenues:														
Compact funding	\$ 8,110,292	\$ 6,102,185	\$ 378,233	\$ 69,932	\$ 346,021	\$ 2,515,105	\$ 279,012	\$ 550,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,351,714
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	1,551,607	1,551,607
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	2,929,993	381,768	-	3,311,761
	<u>8,110,292</u>	<u>6,102,185</u>	<u>378,233</u>	<u>69,932</u>	<u>346,021</u>	<u>2,515,105</u>	<u>279,012</u>	<u>550,934</u>	<u>-</u>	<u>-</u>	<u>2,929,993</u>	<u>381,768</u>	<u>1,551,607</u>	<u>23,215,082</u>
Expenditures by function:														
Current:														
General government	-	-	378,233	-	346,021	-	279,012	-	-	-	45,304	275,594	1,551,607	2,875,771
Land and natural resources	-	-	-	69,932	-	-	-	-	-	-	84,687	-	-	154,619
Education	8,110,292	-	-	-	-	2,515,105	-	-	-	-	1,059,015	-	-	11,684,412
Health services	-	6,102,185	-	-	-	-	-	-	-	-	1,740,987	-	-	7,843,172
Capital projects	-	-	-	-	-	-	-	550,934	-	-	-	-	-	550,934
Total expenditures	<u>8,110,292</u>	<u>6,102,185</u>	<u>378,233</u>	<u>69,932</u>	<u>346,021</u>	<u>2,515,105</u>	<u>279,012</u>	<u>550,934</u>	<u>-</u>	<u>-</u>	<u>2,929,993</u>	<u>275,594</u>	<u>1,551,607</u>	<u>23,108,908</u>
Net change in fund balances	-	-	-	-	-	-	-	-	-	-	-	106,174	-	106,174
Fund balances (deficit) at the beginning of the year	7,116	4,787	-	537	1,184	7,493	-	18,969	44,188	35,588	-	(56,016)	-	63,846
Fund balances at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ -</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ 7,493</u>	<u>\$ -</u>	<u>\$ 18,969</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ 50,158</u>	<u>\$ -</u>	<u>\$ 170,020</u>

See Accompanying Independent Auditors' Report.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

GRANTS ASSISTANCE FUNDS

Combining Statement of Revenues, Expenditures by Account,
and Changes in Fund Balances (Deficit)
Year Ended September 30, 2017

	10 Section 211(a)(1) Education Sector	11 Section 211(a)(2) Health Sector	12 Section 211(a)(5) Environment	13 Section 211(a)(3) Private Sector Development	14 Section 211(a)(4) Capacity Building	15 Section 211(a)(1) Supplemental Education	16 Enhanced Reporting Accountability	19 Infrastructure Maintenance	6 Section 221(b) Special Block Grant	7 Compact I Other Grants	20 U.S. Federal Grants	23 Non-U.S. Grants	25 CFSM Grants	Total
Revenues:														
Compact funding	\$ 8,110,292	\$ 6,102,185	\$ 378,233	\$ 69,932	\$ 346,021	\$ 2,515,105	\$ 279,012	\$ 550,934	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,351,714
CFSM grants	-	-	-	-	-	-	-	-	-	-	-	-	1,551,607	1,551,607
Federal contributions and other grants	-	-	-	-	-	-	-	-	-	-	2,929,993	381,768	-	3,311,761
	<u>8,110,292</u>	<u>6,102,185</u>	<u>378,233</u>	<u>69,932</u>	<u>346,021</u>	<u>2,515,105</u>	<u>279,012</u>	<u>550,934</u>	<u>-</u>	<u>-</u>	<u>2,929,993</u>	<u>381,768</u>	<u>1,551,607</u>	<u>23,215,082</u>
Expenditures by account:														
Salaries and wages:														
Regular	4,913,419	2,259,264	137,833	-	192,432	926,324	173,154	224,621	-	-	1,430,013	1,761	20,472	10,279,293
Overtime	-	139,006	4,944	-	-	-	-	-	-	-	187,324	-	19,937	351,211
Fringe benefits	1,145,472	423,193	33,055	-	29,468	247,138	37,357	17,843	-	-	350,255	392	4,544	2,288,717
Travel and transportation	52,292	83,821	3,848	946	26,036	50,041	-	26,967	-	-	164,899	1,134	15,124	425,108
Communications	11,774	47,217	4,930	5,629	8,897	57,077	-	8,150	-	-	19,735	50	272	163,731
Dues, membership, and subscriptions	-	3,000	-	-	465	40	-	-	-	-	700	-	-	4,205
Food stuffs	142,068	128,325	41	28	80	202,833	-	-	-	-	1,170	3,915	20,784	499,244
Freight and port charges	5,861	10,110	-	-	2,193	-	-	3,611	-	-	-	59	-	21,834
Non-capitalized equipment and furnitur	40,806	9,454	876	1,331	13,069	44,504	1,779	-	-	-	26,894	503	2,919	142,135
Capital outlays	345,532	530,830	-	12,330	12,705	73,764	15,494	125,830	-	-	90,276	127,068	884,789	2,218,618
Office supplies and materials	400,593	251,350	14,057	4,902	12,661	123,786	50,350	36,378	-	-	197,201	4,154	57,354	1,152,786
Books and instructional supplies	350,524	-	-	-	-	296,788	-	-	-	-	73	-	-	647,385
POL	80,000	34,441	2,888	1,735	1,011	48,504	199	3,998	-	-	32,961	751	45	206,533
Printing and reproduction	1,845	38,344	48	3,780	3,688	3,303	679	2,150	-	-	45,755	900	-	100,492
Rental services	14,342	19,602	-	-	-	7,380	-	759	-	-	49,768	5,847	540	98,238
Repairs and maintenance	32,364	10,862	1,513	360	1,854	10,675	-	-	-	-	3,835	-	200	61,663
Utilities	160,115	462,992	6,500	2,500	10,737	25,728	-	10,000	-	-	27,291	-	3,254	709,117
Medical referrals	-	21,785	-	-	-	-	-	-	-	-	-	4,500	-	26,285
Medical supplies	-	1,242,564	-	-	-	-	-	-	-	-	100,011	100	-	1,342,675
Contractual services	104,803	226,834	166,745	36,391	28,867	249,080	-	72,927	-	-	159,222	88,750	521,373	1,654,992
Scholarships and allowances	253,159	-	-	-	-	-	-	-	-	-	-	-	-	253,159
Housing allowance	-	115,117	-	-	1,783	23,881	-	17,700	-	-	18,300	-	-	176,781
Meeting allowance	10,276	17,860	880	-	-	700	-	-	-	-	16,420	-	-	46,136
Non-payroll compensation	44,480	-	-	-	-	123,433	-	-	-	-	-	-	-	167,913
Miscellaneous goods and services	567	26,114	-	-	-	26	-	-	-	-	7,890	35,273	-	69,870
Bank charges	-	100	75	-	75	100	-	-	-	-	-	437	-	787
Total expenditures	<u>8,110,292</u>	<u>6,102,185</u>	<u>378,233</u>	<u>69,932</u>	<u>346,021</u>	<u>2,515,105</u>	<u>279,012</u>	<u>550,934</u>	<u>-</u>	<u>-</u>	<u>2,929,993</u>	<u>275,594</u>	<u>1,551,607</u>	<u>23,108,908</u>
Net change in fund balances	-	-	-	-	-	-	-	-	-	-	-	106,174	-	106,174
Fund balances (deficit) at the beginning of the year	<u>7,116</u>	<u>4,787</u>	<u>-</u>	<u>537</u>	<u>1,184</u>	<u>7,493</u>	<u>-</u>	<u>18,969</u>	<u>44,188</u>	<u>35,588</u>	<u>-</u>	<u>(56,016)</u>	<u>-</u>	<u>63,846</u>
Fund balances at the end of the year	<u>\$ 7,116</u>	<u>\$ 4,787</u>	<u>\$ -</u>	<u>\$ 537</u>	<u>\$ 1,184</u>	<u>\$ 7,493</u>	<u>\$ -</u>	<u>\$ 18,969</u>	<u>\$ 44,188</u>	<u>\$ 35,588</u>	<u>\$ -</u>	<u>\$ 50,158</u>	<u>\$ -</u>	<u>\$ 170,020</u>

See Accompanying Independent Auditors' Report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Marcelo Peterson
Governor, State of Pohnpei
Federated States of Micronesia:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component units and each major fund of State of Pohnpei as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise State of Pohnpei's basic financial statements, and have issued our report thereon dated June 29, 2018. Our report was qualified with respect to GASB 70 noncompliance, was qualified with respect to the lack of recognition of a liability associated with a guaranteed debt obligation, and includes a reference to other auditors. Other auditors audited the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, as described in our report on State of Pohnpei's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants, and other matters did not include the Pohnpei Utilities Corporation, the Pohnpei Port Authority, and the Pohnpei State Housing Authority, which were all audited by us. We have issued separate reports on our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters for these entities. Other auditors issued separate reports on their consideration of internal control over financial reporting and their tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered State of Pohnpei's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of State of Pohnpei's internal control. Accordingly, we do not express an opinion on the effectiveness of State of Pohnpei's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify one deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs as item 2017-002 that we consider to be a material weakness.

Compliance and Other Matters

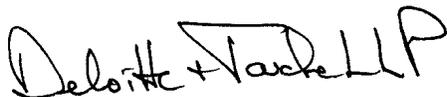
As part of obtaining reasonable assurance about whether State of Pohnpei's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

State of Pohnpei's Response to Findings

State of Pohnpei's response to the findings identified in our audit are described in the accompanying corrective action plan. State of Pohnpei's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



June 29, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Honorable Marcelo Peterson
Governor, State of Pohnpei
Federated States of Micronesia:

Report on Compliance for Each Major Federal Program

We have audited State of Pohnpei's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of State of Pohnpei's major federal programs for the year ended September 30, 2017. State of Pohnpei's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

As discussed in Note 3B to the Schedule of Expenditures of Federal Awards, State of Pohnpei's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule of Expenditures of Federal Awards for the year ended September 30, 2017. Our audit, described below, did not include the operations of the entities identified in Note 3B as these entities conducted separate audits in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of State of Pohnpei's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about State of Pohnpei's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of State of Pohnpei's compliance.

Opinion on Each Major Federal Program

In our opinion, State of Pohnpei complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Other Matters

The results of our auditing procedures disclosed one instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001. Our opinion on each major federal program is not modified with respect to this matter.

State of Pohnpei's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. State of Pohnpei's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of State of Pohnpei is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered State of Pohnpei's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of State of Pohnpei's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

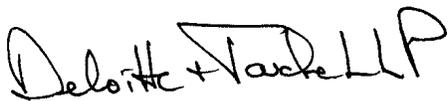
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified one deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be a significant deficiency.

State of Pohnpei's response to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. State of Pohnpei's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units and each major fund of State of Pohnpei as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise State of Pohnpei's basic financial statements. We issued our report thereon dated June 29, 2018, which report was qualified with respect to noncompliance with GASB 70, was qualified with respect to the lack of recognition of a liability associated with a guaranteed debt obligation, and included a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. We did not audit the financial statements of the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation which represent 7%, 6% and 7%, respectively, of the assets, net position, and revenues of State of Pohnpei's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pohnpei Transportation Authority and the Small Business Guarantee and Finance Corporation, is based solely on the reports of the other auditors. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



June 29, 2018

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Summary Schedule of Expenditures of Federal Awards, by Grantor
Year Ended September 30, 2017

Agency/Program	Expenditures
U.S. Department of the Interior	\$ 18,676,290
U.S. Department of Education	1,059,015
U.S. Department of Health and Human Services	1,786,291
GRAND TOTAL	\$ 21,521,596
Reconciliation to the basic financial statements:	
Grants Assistance Fund	\$ 23,108,908
Infrastructure Maintenance Fund	239,889
Less:	
Non-U.S. Federal Grants Fund expenditures	(275,595)
CFSM Grants Fund expenditures	(1,551,607)
	\$ 21,521,596

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA#	Pass-Through Entity Identifying #	Federal Expenditures
U.S. DEPARTMENT OF THE INTERIOR			
Pass-Through From the FSM National Government:			
Economic, Social and Political Development of the Territories:	15.875	A4	
Compact of Free Association, As Amended, Sector Grants:			
Compact II Education Sector			\$ 8,110,292
Compact II Health Sector			6,102,185
Compact II Capacity Building Sector			346,021
Compact II Environment Sector			378,233
Compact II Private Sector			69,932
Compact II Supplemental Education			2,515,104
Compact II ERA			279,012
Compact II Infrastructure Maintenance			239,889
Compact II Infrastructure Fund			<u>550,934</u>
Total CFDA 15.875			18,591,602
Historic Preservation Fund Grants-In-Aid	15.904		<u>84,687</u>
TOTAL U.S. DEPARTMENT OF THE INTERIOR			<u>\$ 18,676,290</u>
U.S. DEPARTMENT OF EDUCATION			
Pass-Through From the FSM National Government:			
Special Education Cluster (IDEA):		A4	
Special Education - Grants to States	84.027		<u>\$ 1,059,015</u>
Special Education Cluster (IDEA) Total and TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 1,059,015</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Expenditures of Federal Awards, Continued
Year Ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA#	Pass-Through Entity Identifying #	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Program:			
Health Center Program Cluster:			
Health Center Program (Consolidated Health Centers)	93.224		\$ <u>716,447</u>
Health Center Program Cluster Total			716,447
HIV Care Formula Grants	93.917		<u>56,812</u>
Subtotal U.S. Department of Health and Human Services Direct Programs			773,259
Pass-Through From the FSM National Government:			
		A4	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		329
Project Grants and Cooperative Agreements for Tuberculosis			
Control Programs	93.116		78,167
State Systems Development Initiative Grant Program	93.110		6,736
Family Planning - Services	93.217		57,566
Substance Abuse and Mental Health Services - Projects of Regional and			
National Significance	93.243		276,932
Immunization Cooperative Agreements	93.268		131,525
CDC & Prevention-Investigations and Technical Assistance	93.283		86,764
HIV Prevention Activities-Health Department Based	93.940		36,988
Block Grants for Community Mental Health Services	93.958		3,555
Block Grants for Prevention and Treatment of Substance Abuse	93.959		172,581
Cooperative Agreements for State-Based Diabetes Control			
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		7,648
Cooperative Agreements for State-Based Diabetes Control Programs	93.988		15,068
and Evaluation of Surveillance Systems			
Preventive Health and Health Services Block Grant	93.991		8,124
Maternal and Child Health Services Block Grant to the States	93.994		112,564
CCPI Cancer Program	93.999		<u>18,483</u>
Subtotal U.S. Department of Health and Human Services Pass-Through Programs			<u>1,013,032</u>
 TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL			 \$ <u><u>1,786,291</u></u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ <u><u>21,521,596</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2017

1. Scope

State of Pohnpei is one of the four States of the Federated States of Micronesia. All significant operations of State of Pohnpei are included in the scope of the Single Audit. The U.S. Department of the Interior has been designated as State of Pohnpei's cognizant agency for the Single Audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of State of Pohnpei under programs of the federal government for the year ended September 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of State of Pohnpei, it is not intended to and does not present the financial positions or changes in financial positions of State of Pohnpei.

3. Summary of Significant Accounting Policies

A. Basis of Accounting

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, consistent with the manner in which State of Pohnpei maintains its accounting records. All expenditures and capital outlays that represent the federal share are reported as expenditures. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented, where available.

B. Reporting Entity

For purposes of complying with the Single Audit Act of 1984, as amended in 1996, State of Pohnpei's reporting entity is defined in Note 1A to its September 30, 2017 basic financial statements; and all of the discretely presented component units are excluded. Accordingly, the accompanying Schedule presents the federal award programs administered by State of Pohnpei, as defined above, for the year ended September 30, 2017.

C. Indirect Cost Allocation

State of Pohnpei did not receive any indirect cost allocation and did not elect to use the de minimis indirect cost rate allowed under the Uniform Guidance. State of Pohnpei did not charge indirect costs against federal programs.

D. CFDA #15.875

CFDA #15.875 represents the Office of Insular Affairs (OIA), U.S. Department of the Interior. Funding from this source is subject to varying rules and regulations since OIA administers the Compact of Free Association, which is a treaty, and is not a federal program. The Compact is comprised of various funded programs, each with separate compliance requirements. To maximize audit coverage of OIA funding, the OIG has recommended that programs administered under CFDA #15.875 be grouped by like compliance requirements and such groupings be separately evaluated for purposes of major program determinations.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs
Year Ended September 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

- | | |
|--|--------------------------|
| 1. Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified and Qualified |
| Internal control over financial reporting: | |
| 2. Material weakness(es) identified? | Yes |
| 3. Significant deficiency(ies) identified? | None Reported |
| 4. Noncompliance material to financial statements noted? | No |

Federal Awards

Internal control over major federal programs:

- | | |
|---|------------|
| 5. Material weakness(es) identified? | No |
| 6. Significant deficiency(ies) identified? | Yes |
| 7. Type of auditors' report issued on compliance for major federal programs: | Unmodified |
| 8. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 9. Identification of major federal programs: | |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.875	Economic, Social and Political Development of the Territories – Compact of Free Association, As Amended, Sector Grants
84.027	Special Education Cluster (IDEA)

- | | |
|--|-----------|
| 10. Dollar threshold used to distinguish between Type A and Type B Programs: | \$750,000 |
| 11. Auditee qualified as low-risk auditee? | No |

Section II – Financial Statements Findings

<u>Finding #</u>	<u>Finding</u>
2017-002	Loan Guarantee Obligation

Section III - Federal Award Findings and Questioned Costs

<u>Finding #</u>	<u>CFDA #</u>	<u>Finding</u>	<u>Questioned Costs</u>
2017-001	15.875	Equipment and Real Property Management	\$ _____ -

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No.: 2017-001
Pass-Through Entity: Federated States of Micronesia National Government
Federal Agency: U.S. Department of the Interior
CFDA Program: 15.875 Economic, Social and Political Development of the Territories –
Compact of Free Association, As Amended, Sector Grants
Requirement: Equipment and Real Property Management
Questioned Costs: \$0

Criteria: Management should periodically review asset maintenance activities to facilitate compliance with program objectives and requirements.

Condition: While it appears that substantial improvements have been made in this area, formal documented procedures are not currently promulgated with respect to requiring that fixed assets undergo required maintenance.

Cause: The cause of the above condition appears to be a potential weakness in internal control requiring that fixed assets be periodically maintained.

Effect: The effect of the above condition is the expected life of capital assets may be lessened. However, no questioned costs result from this finding as no specific instances came to our attention in fiscal year 2017 of unnecessary expenditures that occurred due to this condition.

Identification as a Repeat Finding: Finding No. 2016-001.

Recommendation: We recommend that the State promulgate formal directives requiring that periodic reviews be performed and that asset maintenance activities be documented and monitored.

Views of Auditee and Corrective Action Plan:

See the auditee-prepared corrective action plan.

**STATE OF POHNPEI
FEDERATED STATES OF MICRONESIA**

Schedule of Findings and Questioned Costs, Continued
Year Ended September 30, 2017

Finding No: 2017-002
Area: Loan Guarantee Obligation

Criteria: ADB loans payable guaranteed by State of Pohnpei should be recorded in the financial statements to comply with GASB 70.

Condition: ADB loans guaranteed by Pohnpei State on behalf of a component unit which does not evidence the ability to repay the debt were not recorded in the accounting system to conform with GASB 70.

Cause: Management is of the opinion that such is not a State liability as drastic measures have been put in place or are being proposed at the component unit to allow it to return to profitable operations.

Effect: The effect of such is a departure from GASB requirements and a report modification.

Identification as a Repeat Finding: Finding No. 2016-003

Recommendation: Pohnpei State should comply with GASB 70 requirements and record the debt until such time as the component unit evidences the ability to make required debt repayments.

Views of Auditee and Corrective Action Plan:

See the auditee-prepared corrective action plan.



POHNPEI STATE GOVERNMENT

Department of Treasury and Administration

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 Kolonia, Pohnpei FM 96941
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 Email: pnidota@mail.fm

Office of the Director

CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) Year Ended September 30, 2017

Finding Number	Corrective Action Plan	Anticipated Completion Date	Responsible Person (Contact details)
2017-001	The Division of Property and Supply shall document its policies and procedures on asset maintenance activities and bi-annual inventory. Compliance to the directive shall be monitored.	FY 2018	Mr. Moses Hespak Jr. mosonjr@yahoo.com
2017-002	During the year, the Department of Treasury had initiated an agreement to collect from the Pohnpei Utilities Corporation (PUC). While still in process, PUC came short to make the required debt repayments. The Department continues to negotiate with PUC to meet its obligation under the loan agreement.	FY 2018	Feliciano Perman Director of Department of Treasury Directordota.psg@gmail.com



POHNPEI STATE GOVERNMENT

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Office of the Director

Unresolved Prior Audit Findings and Questioned Costs Year Ended September 30, 2017

Questioned Costs

The prior year Single Audit report on compliance with laws and regulations noted the following questioned costs and comments that were unresolved at September 30, 2017:

Questioned costs as previously reported:	
Fiscal year 2016 Single Audit	\$ 911,132
Questioned costs as previously reported:	
Fiscal year 2013 Single Audit	121,684
Questioned resolved in fiscal year 2017:	(448,013)
Questioned costs of fiscal year 2017 Single Audit	_____ -
Unresolved questioned costs at September 30, 2017	\$ <u>584,803</u>



POHNPEI STATE GOVERNMENT

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Office of the Director

Summary Schedule of Prior Audit Findings and Questioned Costs Year Ended September 30, 2017

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Cost</u>	<u>Status</u>
2013-003	15.875	\$ 25,701.00	Resolved based on Grantor correspondence dated June 26, 2018
2013-004	15.875	41,094.00	Resolved based on Grantor correspondence dated June 26, 2018
2014-003	15.875	29,215.00	Resolved based on Grantor correspondence dated June 26, 2018
2014-004	15.875	350,000.00	Resolved based on Grantor correspondence dated June 26, 2018
2015-002	15.875	2,003.00	Resolved based on Grantor correspondence dated June 26, 2018
2016-002		-	Resolved - PSG hired a financial advisor
		<u>\$ 448,013</u>	

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Questioned Cost</u>	<u>Status</u>
2013-002	15.875	\$ 54,889	Not Corrected or Resolved
2014-001	15.875	-	Not Corrected or Resolved. See Finding 2015-001
2014-002	15.875	162,378	Not Corrected or Resolved
2015-003	15.875	367,407	Not Corrected or Resolved
2015-004	84.027	129	Not Corrected or Resolved
2016-001	15.875	-	Not Corrected or Resolved. See corrective action plan - Finding no. 2017-001
2016-003		-	Not Corrected or Resolved. See corrective action plan - Finding no. 2017-002
		<u>\$ 584,803</u>	